

PUBLIC

THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON TASWATER OWNERSHIP MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART ON 29 SEPTEMBER 2017.

Mr TONY FOSTER, MAYOR, **Mr RON SANDERSON**, GENERAL MANAGER, AND **Mr GREG DAVOREN**, DEPUTY GENERAL MANAGER, BRIGHTON COUNCIL WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Armitage) - Welcome, gentlemen. All evidence taken at this hearing is protected by parliamentary privilege, but I remind you that any comments you make outside the hearing may not be afforded such privilege. The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available. Would you like to speak to your submission?

Mr FOSTER - Thank you for the opportunity afforded to Brighton Council to comment on our written submission. Ron Sanderson is our general manager and Greg Davoren is our deputy general manager. I am sure they can answer any questions on the detail of our submission. I also acknowledge Mr Tony Harrison, who is sitting in the public area. He has been a consultant to the Brighton Council for the best part of 20 years.

I would like to make a few introductory comments. Brighton Council has a very proud history in the reform of the water and sewerage services. We were recognised nationally for our water and sewerage reforms in the late 1990s and early 2000s. We were advised that we had the best water and sewerage management policy in the whole of the country, so it was quite an honour back in those days. We were the first council in Australia to transfer 100 per cent of our sewage effluent from waterways to land owned by our local farmers and the first in southern Tasmanian to introduce water meters to the entire municipality, along with two-part pricing - in other words, a fixed cost for infrastructure and a volumetric price for the consumption of water.

We have been involved in the reform of the sector for a very long time. I had the honour of being selected by the 29 councils to be the first chief owners' representative at the formation of TasWater. Prior to this, each of the three regions were represented by a board and nominated representatives. The involvement of elected members of councils goes way back to when Geoff Willis was appointed as executive chairman. I believe our bona fides and credibility support our written submission.

During the 1960s and 1970s my wife, Noelene, and I spent many years living in Los Angeles; I was attached to the Department of Foreign Affairs and Noelene was attached to the Department of Irrigation. We returned to Australia in the late 1970s and became residents of the Brighton municipality in 1978; we have lived there ever since. We have both invested many years in the health and wellbeing of not only the current community but also in providing a future for the young people who want to live in our municipality, just as so many others have done around this state.

I do not want to see this future, and that of my grandchildren, jeopardised by poor legislation and policy. There is no doubt in my mind, and many others share my view, that our governments of the day have not got it all right. For example, the establishment of the Broad Acre Housing developments in the early 1970s in Bridgewater, Gagebrook and Herdsmans Cove was not ideal.

PUBLIC

Today we are still trying to come to terms with and manage the issues associated with that decision-making. Affordable housing, health, education, transport, employment and energy costs are all by-products of poor government decision-making and are still affecting our community nearly 50 years on.

This leads me to my point about governments making decisions based on politics and not on commonsense, community interest or a realistic perspective. To be honest, I simply do not understand why Mr Gutwein and the state Government have embarked on this strategy, one that has no basis in fact nor benefit for our community.

If you want to see a crisis, you only have to consider the more than 60 million displaced people in this world who do not have access to drinkable water or, more recently, the 400 000 - and growing daily - Rohingya people who have had to flee Myanmar and currently are ensconced in tents in squalor in Bangladesh, a crime against humanity. If you want to see the Third World, visit parts of Africa or South Asia where raw sewage runs down the streets. That is crisis and Third World - not the fact that a few small towns across Tasmania currently have issues with water that will be fixed by August 2018. In fact, by February 2018, we will still to see significant finalisation of projects right across Tasmania. Currently more than 99 per cent of TasWater's reticulated water customers have access to potable water and, as I have mentioned, this will be 100 per cent by the time of the proposed hostile takeover by the state Government.

I have been Third World countries and seen the lack of provision of even basic water and sewerage services. My elder son, a former Foreign Affairs diplomat, is currently serving with United Nations in Kabul, Afghanistan where they work in a protected compound. The people who live there are under constant attack from the Taliban and even the simple pleasure of going to watch the locals in a cricket match comes with danger of bomb blast. That is Third World and a crisis.

It is disingenuous, dishonest and insulting in the extreme for Mr Gutwein to make claims of crisis and Third World water and sewerage systems when this is patently not the case in Tasmania. As we have pointed out in our submission, Tasmanian councils stand to lose up to \$45.7 million a year in lost distributions after 2025 - that is if the state Government's takeover is successful. Brighton Council's losses alone will amount to more than \$1.4 million a year, equal to 18.5 per cent of the municipality's annual rate revenue. That is something we cannot afford to lose and would result in significant rate increases, hitting an already disadvantaged community.

These distributions are not held by councils in their bank accounts but are used to fund essential community projects such as roads, footpaths, community health facilities, parks and reaction areas and other services vital to the community's wellbeing. So the Brighton community, which handed TasWater a well-established and mature water and sewerage system already paid for by ratepayers in Bridgewater and Gagebrook and the rest of our municipality, will have to pay again in a form of higher council rates and increased water and sewerage charges to pay off Mr Gutwein's increased and unnecessary \$600 million in debt. The guarantee provided by the Treasurer of distributing half TasWater's future surpluses is worthless.

TasWater has already testified that the state Government's plan will render the business unsustainable and unable to generate any surplus. Half of nothing is nothing. Ron and Greg can provide more detail about the extent of those projected council losses and the impact on our community - an impact that will be felt by communities all around Tasmania.

PUBLIC

For 22 years Brighton has kept its residential rate increase at or below the annual rise in CPI. When we were previously required by government to run our water and sewerage services on a commercial basis, we reduced our rates accordingly so there was no extra revenue coming into the council. On handing over our infrastructure, this revenue was subsequently replaced by distributions from TasWater.

But make no mistake: in seven years those distributions will disappear if Mr Gutwein gets his way. He has already warned councils to prepare for life without dividends and his legislation specifically provides for circumstances where councils receive nothing.

The question we must ask as a council is: do we now start increasing our rates by 2 per cent or so each year, or do we wait until 2025 and hit ratepayers with an 18.5 per cent hike? Brighton is heavily reliant on residential rates. We do not have a CBD or large commercial or industrial sector to fill the gap, so it is the battlers of Bridgewater and Gagebrook who will have to pay for this political folly.

Whatever we are forced to do, we will make sure the community knows who is responsible.

TasWater is currently run by an independent skills-based board and a management team of experts in their field. It is free from political interference and makes sound decisions based on need, not on where politicians want to win votes. The recommendations from this committee will have wide consequences. I urge you to carefully consider the broader implications of a state Government GBE able to be directed and have its balance sheet raided by the minister in control of water and sewerage in Tasmania.

On behalf the Brighton Council and our community, I urge this select committee and the Legislative Council to reject the state Government's ill-considered and ill-conceived legislation.

CHAIR - Thank you.

Mr SANDERSON - Building on what the mayor has said, this is a community point of view. They say this hostile takeover of TasWater will hurt ordinary people in all parts of the state.

I will start with Brighton. About 10 years ago councils were directed by Treasury to increase water and sewerage charges to reflect a commercial rate of return on their assets of between 2 and 7 per cent. We achieved this by reducing rates and increasing water and sewerage charges. We disagreed, but we had no choice and kept the rate as low as we could - near 2 per cent. This amounted to about \$1 million a year when we lost the assets. This year we get \$924 000 from TasWater in distributions, which is similar to what we had before.

Based on our TasWater distribution profiles, Brighton Council will be entitled to a distribution of \$1.4 million in the financial year 2025. Without the funding, we will be forced to raise rates to maintain the same level of service and construction of community infrastructure. The only way we can raise this shortfall is by increasing our general rate. Brighton Council has worked very hard to keep its rate rises to the CPI for the past 22 years. I am confident we are the only council in Australia that could claim this.

We estimate this hostile takeover would force the council to raise its general rate by 18.5 per cent. It could be done in two ways: a one-off rise, as the mayor said, or by increasing the general rate of 2.5 per cent per year, starting next year. This is 2.5 per cent plus the CPI rates.

PUBLIC

We do not have a CBD or a large commercial or industrial rate base. Accordingly, we rely on residential sectors to raise funds. Approximately 80 per cent of our general rate is residential homes. Therefore, our ordinary house payers would have to bear the brunt of the rate rise resulting from a hostile takeover. This is a sad state of affairs, when some of the poorest people in Tasmania will be forced to pay increased rates because they have lost assets they have already paid for.

The Treasurer has said that the water and sewerage charges will be \$500 cheaper over the next few years. We all know that would be the result of distribution to councils being paid from consolidated revenue. We contend this money would be far better spent in important sectors such as hospitals, schools and police.

The 18.5 per cent rise forced by the hostile takeover would be forever and much more than the \$500. For example, in the first year we estimate a Brighton house would have to pay an extra \$180 in rates.

The lost distributions do not only affect Brighton. All councils will be affected. Here are a few examples of how much councils would lose in that one year: Brighton, \$1.4 million; Break O'Day, \$886 000; Derwent Valley, \$621 000; Dorset, \$443 000; Hobart, \$5 million; Latrobe, \$875 000; and Launceston, \$6.2 million. Which of these councils can afford this much revenue loss? This is not a once-off loss - it would be forever, compounding each year. Just imagine the community facilities that would not be able to be funded unless all councils increased their rates.

In Brighton there is neither a crisis in water and sewerage nor does it have Third World infrastructure. Why should our people be punished by a hostile takeover of TasWater? We contend the only crisis is that ordinary people in all corners of the state would have to face large rate rises for no good reason.

On behalf of local communities, we ask the select committee and the Legislative Council to reject the Government's legislation. Thank you.

Mr DAVOREN - As I see it, with this takeover there is no efficiency game and there is no extra revenue achieved. It is clearly, in my view, just a cost shift of where the income will go to. A lot of this debate is about who should receive that income. A state government will borrow so there are extra costs there; it is a shift of income from one sector to another.

Mr VALENTINE - I am interested in the value Brighton Council has put on it. Page 2 of your submission says -

Under the state Government's plan councils, including Brighton, are being offered just 6 cents in the dollar. In the multibillion dollar investment in TasWater, Brighton's investment in TasWater is valued at more than \$46 million paid for by every Brighton rate payer.

When this debate was raging, revaluations occurred - one was by the Auditor-General - and these values dropped significantly. What was your initial value in terms of what it cost to put your infrastructure in the ground? Its value by the Auditor-General is based on what it can earn.

PUBLIC

Mr DAVOREN - I believe the value was based not on the revenue that would be received from the asset, it was based on what the asset value base is.

Mr VALENTINE - It was revalued, wasn't it?

Mr DAVERON - From our aspect it was reasonably close. Hobart was a bit upset.

Mr VALENTINE - It went from \$430 million down to \$250 million or something.

Mr DAVERON - From memory the asset value was almost the liability, so it was a balance sheet aspect, not based on the revenue that could be received from the assets. Each council valued it differently.

Mr VALENTINE - That is interesting. I wondered whether the \$46 million reflects what it cost your council to put in the hardware.

Mr DAVERON - If we build an asset, whether it is a road or water and sewerage, it is revalued over time based on CPI generally or some indexation.

Mr VALENTINE - It is fair to say the \$46 million is not reflective of what it actually cost you to put it into the ground.

Mr DAVERON - At that time, in real money, that would be the reflective cost, yes.

Mr VALENTINE - Fair enough, that was my question. Your statements say it will render it impossible for the Government to be able to deliver on its price or infrastructure upgrade promises. Why do you feel that?

Mr SANDERSON - Because the debt level due to increased borrowing will render it impossible to give out dividends and say what they are going to do. They are handcuffing themselves by rapidly spending more money - or trying to - and borrowing a significant amount of money that the interest has to come off.

Mr VALENTINE - Six hundred million, or whatever it is.

Mr SANDERSON - Yes, that is right. On one hand they can do all this work, but on the other they have handcuffed themselves.

Mr VALENTINE - Do you have a comment on the equity of this? You mentioned the value to Brighton. You have put in a significant amount of time, effort and resources to build that up. I am interested in getting your thoughts on the record with regard to why you might consider this not to be an equitable way of transferring in terms of the dividends you might get back.

Mr SANDERSON - They do not reflect the value of the equity. TasWater has a clear distribution in play that is similar to what we did before. It reflects our asset, the percentage of the business - 3.08 per cent. We are happy with that. This distribution of half of the profit is totally unequitable. There is no equity whatsoever in it. It's a profit and it will be half of the profit, which is doubtful in the first place, so that is not equitable whatsoever.

PUBLIC

Mr VALENTINE - The Treasurer would say these are the assets of Tasmanians so spreading it across the whole tax base is not being inequitable, it is spreading it evenly across the state. They are my words, not his, but I think they are his feelings.

Mr DAVOREN - We were receiving around \$1 million every year from water and sewerage - that was our profit. When it was taken from us by TasWater, we were receiving a similar figure - a little bit less, about \$920 000. That was a growth revenue and by all accounts growth revenue is what you want. It increases every year with CPI and growth, so our prediction was somewhere around \$1.4 million for what we should have been receiving at the end of 2025. That is what was taken from us. At the end of the day, at best now we reduced the revenue cost significantly to assist TasWater to speed up the infrastructure spend - and that was agreed by council - so we significantly reduced the revenue we were receiving through that period -

Mr VALENTINE - Was that reluctantly?

Mr DAVOREN - It was reluctantly. I was probably one of the strongest people to speak against it. I heard Miles speak at a meeting in Launceston and I was pretty much swung around on that basis. I could see the urgency of it and was convinced by the mayor and the council that supported it, but I was probably one of the few people who were reluctant. I had always had expectations, and all our long-term financial plans were, that it would go back to that figure. We had planned out our council long range to keep it at CPI forever and now we have learnt there is a cost shift which goes across to the state Government and we will no longer receive that revenue. At best, it appears it will be half of the revenue, but, as Ron pointed out, there will be loans to be repaid and so forth, so it cannot be as efficient as it is now. They have also promised lower charges for the water, so that has to reduce the revenue as well. Whichever way you look at it, councils have to receive less.

It can be argued, in my view, whether it matters if the council or the state gets it. There is no money generated in this process, but the fact is that councils will lose and the state Government will gain. As to whether this is a crisis or not, to me it is simply a cost-shift of money. There is a great pool of money, a great income stream, from a well-run business, and at the end of 2025 an even better-run business because there will be no maintenance catch-up and that money will no longer come to the people who originally put it there. Councils only have one option. We cannot get income from any other source. We can become more efficient - and our council is fairly efficient, I believe - but the main area to raise income comes from ratepayers. If you move this money across to the state Government, we would then have to increase rates - and our predictions are about 18 per cent - just to balance back where we were.

Mr VALENTINE - And that is basically to fix things outside your electorate?

Mr DAVOREN - Yes, there is nowhere else we can get it. You can argue if the state is worse off because now the state Government has more money and the councils have less. If that is the approach, so be it, but for us to run a council, we have to have that income to maintain the assets we currently have.

Mr SANDERSON - If you look at Flinders and King islands, Flinders Island has been fixed up by TasWater so the money is going to these places that could not afford it otherwise, so the state is benefiting by good governance from TasWater.

PUBLIC

Mr VALENTINE - I know there is a feeling coming from the Treasurer that this is a broken system so why should councils be getting revenue from a broken system when they should be putting all of the dividends back into the business. What is your comment on that?

Mr SANDERSON - I think our roads are more broken than TasWater, but that's a separate issue.

Mr DAVOREN - Even if it is broken, all we can do is increase rates to fix it. There's nowhere else we can get it. It's not like we can drop our share dividends to our councillors or anything. A council has a set amount of money - there is no more.

Mr VALENTINE - It seems to me that you have gone down a track following the National Competition Policy for - I think it was you, Mayor Foster, who mentioned that in your opening statement.

Mr FOSTER - Yes.

Mr VALENTINE - So you are earning money and putting that money back into your community with the exercising of those assets, if I can put it that way - they are earning money, as National Competition Policy expected you to. Do you think if their system is still deficient that the Commonwealth ought to be putting money in? Do you see that as something that is not being pursued and maybe should be, or do you think it the Government that ought to be putting it in because they are basically trying to fix up those parts of the community that did not put money aside?

Mr FOSTER - We got on very well with the Treasurer a long time ago; the chairman and I used to sit down regularly with him. I really started to see a change when, prior to the last federal election, we were working with Mr Gutwein so that local, state and federal government would put in a certain amount. At the end of the day politics won out because the funding was given to the north of the state for the university. We accepted that, but right up until that time we were in a very good relationship with the Treasurer. After that was when it became broken. I think politics crept into it rather than common sense, because we were always working with the Treasurer up until that point in time.

Mr VALENTINE - I guess my question still remains. Because it was the National Competition Policy that basically drove you down the route of earning money from your assets, is it the Commonwealth that should be stumping up money to help fix the system that is broken or the state Government that should be coughing up more money?

Mr DAVORAN - Can I answer this? First up, I don't quite accept that it is broken. I do accept that there are parts of Tasmania that -

Mr VALENTINE - I am not suggesting that - that is what the Treasurer says.

Mr DAVORAN - Yes. There are parts of Tasmania with small councils that would never have the capacity to fix or provide the infrastructure. If we take, say, Flinders Island, they need a lot of money. Brighton is big enough to look after itself - Flinders Island is not. Under the previous structure, Brighton Council would never give money to Flinders Island because it is not our jurisdiction, so Flinders Island would always need help. My belief is when TasWater was set up, it was about the best way to help them. In other states the state puts in money to assist the

PUBLIC

outlying areas that can never afford their infrastructure, whereas in Tasmania it was shared across the councils. I believe councils such as Brighton were disadvantaged because our infrastructure was fully in. Hobart is mostly urban regions. Therefore a lot of the money needed to go into the north - the east coast and so forth - because they were never of a size to provide that infrastructure. Flinders Island is a classic case. Who would help them? Should it be Brighton or should it be the state? It was never going to be Brighton under the previous model, but once it was a full state model, it made sense to balance out and fix those areas.

Mr SANDERSON - If I may add, years ago some of you will recall the CALSIP program, and the rivers and water supply-

Mr VALENTINE - The what program?

Mr SANDERSON - CALSIP - it was for Commonwealth and state government funding for small towns, and that was pulled away. There was also the Rivers and Water Supply Commission that did some work for small towns. As an example, I grew up in a small village 150 miles north of Winnipeg; in the early 1960s, it was fully watered and sewered with help from the provincial government. As Greg said, small isolated places will never be able to afford this on their own, so there must be intervention.

Mr GAFFNEY - I thank you for your submission. I know Brighton Council from the word go has been very vocal about this, and I congratulate you on that. It was not a difficult decision for us to invite you to come to a hearing.

I have two questions. Your submission is probably one of the first ones to make a comment. On the Government's GBE record, could you elaborate further on that please for *Hansard*, because we have not heard that as of yet from other groups? What is your take on the Government's GBE record and how does that concerns you with the takeover bid?

Mr SANDERSON - There was a case where money was moved from the balance sheet from TT-Line. A TasWater director gave a very compelling speech at a meeting in Launceston. This director had worked for GBEs in New South Wales. The point she made was that TasWater is an independent authority under corporation law with an independent expert board, as opposed to, under a GBE, where the direction could be changed at any time by the minister or treasurer of the day. That was the most compelling part - that the direction would be at a political whim of elected state members.

The idea directions can be made and changed on a political whim is the largest thing. Taking money from a balance sheet, just taking some money from a GBEs, which is not on the Government's balance sheet, is a nice, easy money earner.

Mr GAFFNEY - Thank you. I think people forget that TasWater was four organisations originally. You would remember, Tony and Ron, that before it came into TasWater, there were many cases where the government was asked for funding for small, isolated water and sewerage systems - for example, Boat Harbour and the Huon - and quite significant sums. When it went to the full corporation, the state Government has not had to do that - not for many years - they don't play in that space.

It was put to me that now TasWater is at a point now where they are starting to put some runs on the board, a lot of the water systems, which were their main priority to start with - which they

PUBLIC

were told to do by customers or its council members - they've got themselves to a place where they are in a good situation to continue going forward.

Could the state have taken their campaign and done this in a different direction? They were quite aggressive right from the word go and it came out of the blue. Do you think the state Government had other options than the one they are looking at to try to achieve the same end? Would TasWater and the councils be receptive to a different model than virtually losing it?

Mr SANDERSON - If their end is to make more money, no, there would be no meeting in the middle. I personally believe this is a money grab. There is no crisis; there is a plan to fix everything so I do not what purpose - the only thing they have let down in a big way is not pursuing federal grant money promised, as you would be aware, in the early days of the water reform.

Mr DAVOREN - That is a key point because there is no additional money generated from this takeover. If anything, it is slightly less due to the loans and speeding up the process. Somebody has to pay, whether it is our ratepayers and the Government gets more money - there is a shuffle of money. To me, there is nothing else but that.

Mr GAFFNEY - When this first started in 2006 or 2007, the biggest concern of councils then was that they were wary about what projects were going to be undertaken and where, about what needed to be fixed. It is similar today. There are three or four major state projects out there that it looks to some people that this takeover is why - whether it be Macquarie Point, Launceston water and sewerage system or whether it be some sewerage systems along the southern beaches. Do you have a comment and some discussion about those projects and where you see this fitting?

Mr FOSTER - We went to the Treasurer some time ago with a solution that would have worked, and that was that with the three tiers of government report in the last federal election supporting - the state Government was going to put in a certain amount, TasWater was going to put in a certain amount; TasWater and the federal government was all going to put in a certain amount of financial support. Had that worked, it would have been a good model, one that we all could have worked with. We were prepared to go down that path and we thought that was a good model. Unfortunately, when that fell over, the hostility crept in. To me, that was the turning point in the whole argument, the whole debate.

Mr GAFFNEY - TasWater will be here later and we will be asking them some questions about those specific projects because they are important to have on the record. Thanks, Chair.

Ms RATTRAY - In regard to the submission around the financial risk, we heard some evidence previously from the Treasurer that the state is able to borrow money at a cheaper rate. Your submission actually disputes that, so I am interested in exploring that a bit further. You said there will be no savings because you borrow at the same rate from the Tasmanian finance company, TasCorp.

Mr DAVOREN - I am not an expert in where the Treasurer can borrow money from. I was under the impression we all borrowed from the same source, but the fact is we are not borrowing and they are borrowing, so our method must be cheaper if one is paying interest and one is not paying interest, no matter what the interest is.

PUBLIC

Ms RATTRAY - TasWater has a current debt of \$430 million - that is what it's got in the submission - so there would have to be some interest somewhere on that.

Mr DAVOREN - There would be, but if the state Government takes over, they would receive that debt, unless you are saying the debt they would receive from TasWater would reduce to a lower rate. That would surprise me.

Ms RATTRAY - Okay, it's just that the Treasurer - and I think other members of the committee will support me here - definitely said the state is able to borrow money at a cheaper rate than any other entity.

Mr DAVOREN - Would it be appropriate if the Treasurer lent the money to TasWater then, if they can get a better rate than TasWater can?

Ms RATTRAY - Very good question. I was interested in that aspect of your submission.

Mr FARRELL - As a shareholder - Brighton Council is one of the 29 shareholders - in the corporate world, when there is a takeover, generally that happens by offering sweetheart deals to the shareholders. As you've said, this seems a fairly hostile takeover. From your point of view as one of the shareholders, how did it get to that stage so quickly? Do you feel there was ample, if any, negotiation done on a state government to council level before it turned the way it did?

Mr FOSTER - I do not think so. We were initially shocked when the Treasurer took the approach he did. I have never really worked out why he took the particular approach rather than work with the councils.

If he saw there was a problem - not a crisis - the best thing was to work with us, not attack hostilely. There was a breakdown in communication that has probably gone beyond being able to be fixed, Craig.

Mr FARRELL - As the councils are shareholders, what rights do you have to hold onto your shares? It is obviously set up a little differently to a corporate structure, but if you are saying, 'Well, we do not want to sell our shareholding', how can the Government do this? What is your understanding of that process?

Mr FOSTER - I am not sure that we would not sell our shareholding, if we were offered the fair and equitable amount that it's worth. That has never been proposed; it's never been on the table.

Mr FARRELL - That is why some of the other councils, I gather, have said, 'Ah, yes, we'll say yes if we get paid what our assets are worth'. I know there's a couple of councils in my region that have said they'll consider that, but that's based on conditions, so -

Mr DAVOREN - As the finance chief of Brighton, I would recommend that we did sell it if we got the fair amount. I mean, everything is for sale if it is the correct level, but at best we know that we are going to receive half of any opportunity we will have for any future profits.

Mr GAFFNEY - It does not get away from the part that at the moment we have a statewide approach based on need, not on population and voting base.

PUBLIC

Mr FARRELL - This Government has been fairly keen to hand responsibility over to the local government sector. We have seen it with roads with the strategic infrastructure corridors bill, where there is a way of offering a state asset to a local government body or others to manage. This process seems to have been done without any compensation to local government. Would it be correct to say that it has been all stick and no carrot? Is that a fair assessment? Have there been other discussions with your council that you are aware of, with any other assets council or the Government has or wishes council to take on that have happened in this way?

Mr FOSTER - Local government has worked very closely with whichever state government we have had over many, many years. This is the first time I have seen the breakdown as serious as it is. I still cannot work out why and no-one has been able to tell me why the Treasurer has embarked on this process he has.

Mr FARRELL - Have there been any discussions with you, your general manager, any other general managers or anyone on the board you are aware of in transitioning to the new structure under the state Government?

Mr SANDERSON - No.

Mr FARRELL - We have heard from some other bodies that sometimes the complete story has not been told. There may be some of your assets that are in worse condition or at a point in their life where they are going to get to that stage. Has there been any assessment of your plant done independently by government?

Mr SANDERSON - Not by government to my knowledge, but I will say that TasWater in its 10-year capital program includes a new sewage treatment plan for Brighton. That is not because it is Third World or noncompliant; it is because of capacity - we have grown so much. That is already in the 10-year plan. That would have been done with or without TasWater. Obviously, if we still had it, we would have to do it. It is certainly in the TasWater construction plan.

Mr FARRELL - Do you think projects like that may be at risk if the model is changed?

Mr SANDERSON - We don't know. We are sort of a marginal seat, so that might help. Quite seriously, I couldn't answer that because these things are done in a proper manner and I don't know where that plant would end up in the new 'speedy' program.

Mr DAVOREN - I believe when the assets were first transferred across from the councils to TasWater that was the independence done by KPMG. They set the values, where some agreed and some didn't, the actual values of the asset was done back then.

Mr VALENTINE - Before the Auditor-General revalued it?

Mr DAVOREN - The AG doesn't revalue.

Mr VALENTINE - I thought he caused a revaluation at one point.

Mr DAVOREN - My understanding is that when it was taken over KPMG did a valuation and came up with that. That set the basis of the percentage ownership across TasWater. From then, assets always have to be valued, so every so many years all assets would be valued anyway under some mechanism.

PUBLIC

Ms RATTRAY - We have had quite a few submissions in regard to the requirement to upgrade trade waste systems in, particularly, small business. Is that requirement to upgrade is going to affect in a negative way a number of businesses in the Brighton municipality?

Mr FOSTER - If the businesses create the problem, surely they have to fix it. The question I would ask is: why would the people of Bridgewater and Gagebrook have to fix trade waste problems that are created by a separate body? The people who live in those areas are already disadvantaged. They have paid for everything already and are now paying higher water costs. Why should they have to pay for issues related to trade waste? In the reform of water and sewerage when it was first set up, trade waste was never mentioned. Trade waste has crept in only in the last couple of months. For some reason or another it has been added to -

Mr SANDERSON - We had trade waste agreements with the saleyards, for example. We have trade waste with other businesses, such as Toll Transport when they put in the new thing. I have been there since 1993 and I do not know of any cases where we have had a problem with trade waste in Brighton.

Ms RATTRAY - A lot of businesses - and this is what we are hearing - are arguing that they are not creating any problems with trade waste, are happy to continue to pay the levy, but to have to upgrade their systems from a 500-litre container to handle 1000 litres is going to be a significant impost. I was just interested in whether you had any of those cases, but perhaps you do not?

Mr SANDERSON - Not to my knowledge.

Mr FOSTER - Tania, with respect, I think trade waste is a totally different issue. I think we are getting away from the real issue of what we are on about with water and sewerage reform.

Ms RATTRAY - With all due respect, people who are dealing with this issue think it is a pretty big issue for them. It just happened that we are able to take some evidence in front of the committee while we have been going through this process. Thank you.

CHAIR - Thank you. I just have one last question. In your submission, you say -

The Tasmanian public has very little opportunity to influence GBE outcomes. GBEs are not as accountable to communities as TasWater is under its present structure.

Many constituents come to me with issues: when they go to their council, the council says, 'It is nothing to do with me, go to TasWater'. I have one here -

TasWater refuses to answer any of my questions. I have repeatedly told TasWater via email.

Further down -

These direct questions have been ignored.

That seems to be a regular thing. When people come to you with an issue, do you as a council feel that you actually can have an influence with the board and the management to deal

PUBLIC

with the people's issues? Does that happen? Because it does not seem to happen in other areas, or it does not appear to be so in my electorate.

Mr SANDERSON - There are probably two levels: one at an operational level for developments, that sort of thing. We have a very good rapport with TasWater operatives, if I could use that word. We do our best and we certainly get a good hearing from TasWater; we really do - much better than a person off the street naturally, because we are an owner. While we do not have direct influence, we certainly have through the shareholders' Letter of Expectation and just good governance. We get listened to.

Mr FOSTER - When we set up the structure of TasWater, we had hundreds of interviews - I was chairman of the selection committee then - right around Australia. The board of TasWater is made up of experts in their fields. I think we have three people at least now from mainland Australia who sit on the board, and they are experts in their field. The same with the management team. They are experts. We as owners are not there to tell the board or the management how to run the business. They are the experts, not us. That is the way we have always dealt with it, in my view. We engage the experts, let them deal with it.

CHAIR - If you have issues that come to you from your constituents with concerns - I tend to get a lot in my electorate of Launceston -

Mr Gaffney - Yes, there have been a lot of issues with Launceston.

CHAIR - There are. I do have quite a few.

I just wondered whether you would actually on behalf of your constituents go to TasWater and lobby for them and get results?

Mr SANDERSON - So far.

Mr FOSTER - We would take the opportunity to refer them to the board or the senior management who had engaged with them but that would be our total role. We would not try to influence a decision. They are the experts, not us.

CHAIR - Thank you.

Mr VALENTINE - With respect to the document that State Growth put out - 'Accelerated infrastructure investment delivery Tasmania's water and sewerage sector' - have you had a chance to look at that?

Mr SANDERSON - Of course, yes.

Mr VALENTINE - What is your comment on that?

Mr SANDERSON - I have been an engineer in the oil industry. I have been an engineer for a long time. The document is so full of caveats from real engineers that it really does not mean anything to me.

Mr VALENTINE - Are you saying that it is not reflecting the true situation?

PUBLIC

Mr SANDERSON - No, it is the 'what ifs' and 'buts'. There is no hard evidence. In the first place, they do not even know what the plan is.

Mr VALENTINE - Are you are saying they could take it over and then all of a sudden discover, 'We got that bit wrong'?

Mr SANDERSON - Of course, that is naturally what would happen, or 'We did not realise it was so bad' or - you can imagine the excuses.

It was really unfair to produce a document like that and claim that it verifies the whole statement that it can be done faster, better, quicker, cheaper - the usual stuff.

Mr FARRELL - On that, do you think maybe if this takeover proceeded and the Government got what it wished for, there would be claims that 'It was much worse than we thought it was'?

Mr FOSTER - That is a line that has been trotted out over the years.

Mr GAFFNEY - Tony, you have been in local government a long time - I acknowledge and recognise that - but when the whole water reform started in 2006 and there was passion there because of what we were expected to do, there still seemed to be a good relationship between the government of the day and local government working through an issue. To me, sitting back and watching, even though we were forced into that position, there still seemed to be a way forward and a relationship. From what I am hearing today, from your point of view, it seems that this is the worst it has been in your time.

Mr FOSTER - There was goodwill on everyone's part because we wanted to improve the economy of Tasmania and that is what drove it - 'Fix the water issue', which we are doing, and that would improve the economy. It was the treasurer of the day, Michael Aird, who drove that line, and we agreed - we worked together. It is only in recent months that we have had this fallout with the Treasurer who has gone down a different path than wanting to work with us. That is the nature of it.

Mr VALENTINE - Does the premier's local government council still exist? Is that still something that occurs and has this been raised and discussed at those sorts of meetings?

Mr FOSTER - I have never been on it and have never wanted to be on it, so I can't comment.

Mr VALENTINE - Thank you. I think I got the answer there.

CHAIR - Thank you for your submission and for coming along this afternoon to the hearing.

Mr FOSTER - Thank you.

THE WITNESSES WITHDREW.

PUBLIC

Mr PETER McGLONE, TASMANIAN CONSERVATION TRUST, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR - Welcome. All evidence taken at this hearing is protected by parliamentary privilege but I remind you that any comments you make outside may not be afforded such privilege. A copy of information for witnesses is available if you have not read it or are not aware of the process. The evidence you present is being recorded and the *Hansard* version will be published on the committee website when it becomes available. The way we have been following procedure is for you to make a short overview and then members will ask you questions.

Mr McGLONE - I would like to make a couple of comments reiterating what I wrote in my submission about the claims of a crisis. I want to then add to what I wrote in the submission about the Government's policy to be crystal clear about what they are actually promising and the inadequacies of that policy.

Since the end of last year, Mr Gutwein has repeatedly criticised TasWater for providing Third World drinking water and sewerage management. He repeats the same few statistics over and over again as if TasWater is a totally failed institution and the only solution is for him to take it over. A closer look at the minister's statistics - and I have written a detailed appendix to my submission about this - shows he has seriously misled the Tasmanian public, indeed this committee, and TasWater.

In summary, I think a lot of other people have addressed the water issue. We expect all the drinking water issues to be resolved by the middle of the next year. As to sewage spills, Mr Gutwein has repeatedly claimed TasWater has a record seven times the national rate of sewage spills per 100 kilometres of sewer pipe. This is more than misleading. Different regulatory and reporting requirements in each state mean valid comparisons between the mainland and Tasmania cannot be made. It is totally a case of comparing apples and oranges.

As to sewage treatment, TasWater has a long way to go to achieve acceptable sewage effluent standards, but the state Government exaggerates how bad the problem is. Claims of only one out of 78 sewerage treatment plants being fully compliant are misleading in the extreme because it is a very poor way to measure sewage treatment performance. A much better way of measuring it is measuring how much of the volume of sewage is meeting requirements. The 1:78 statistic is very important to focus on. What happens there is that the one treatment plant that is fully compliant meets all the regulatory tests every time it is tested, so the other 77 may only fail one test a year but they are deemed to be a fail, so it is a very poor measure. The current compliance rate in volume of sewage meeting compliance requirements is 84 per cent and has been steadily growing.

The state Government also fails to acknowledge the reasons for delays. One very critical and brave decision TasWater and the EPA made some years ago was to put a lot of focus over a number of years into getting drinking water up to standard, which took time and resources away from sewerage issues. That was a brave decision I think elected officials probably would not make.

The state Government also fails to acknowledge the very significant impediments and costs involved in making improvements. I draw the committee's attention to a lengthy quote I have included in my submission from the EPA annual report that tells you how totally inappropriate it is to be comparing TasWater to mainland sewerage and water providers.

PUBLIC

I want to address the issue of the Government's policy. First of all, there is no standalone document you can go to in the traditional way you would at an election. The legislation for the TasWater takeover is the strategy, the means to an end, but I am going to address the goal of the state Government for sewerage and water services. There have been a lot of media statements with sweeping statements about fixing water and sewerage, giving Tasmanians the services they deserve et cetera, and some that are far less complimentary.

In terms of the quality of drinking water provided and the quality of sewage treatment, the Government is proposing absolutely nothing different to what TasWater is proposing. From what I can gather, the Government will implement the exact same plan for upgrading water and sewerage - but it will only be sewerage - that TasWater has put forward. They are proposing exactly the same standards for drinking water, exactly the same service quality for water, and the same effluent standards for effluent from sewage treatment plants.

From what I can gather, there is no target for improving sewage spills. They criticise the current state of play but there is no target they are aiming at. As to the one out of 78 treatment plants that is compliant, I have never seen any statement of a goal of attaining 78 out of 78 or any other figure.

In terms of prices, I can show you a letter signed by the Premier if you doubt any of these figures, 'The Government promises to limit the price rises for an average customer by up to \$550 over six years'. That is \$91 per year saving, if you believe their promise, which is another thing. That is about \$1.76 per week. You will be able to buy one copy of the *Examiner* every week with your savings but not the Saturday *Examiner*, which I think is now \$2.

There is an issue here with pricing that is central to the debate. Leadership involves delivering unwelcome but necessary change. We could have a long discussion about what the price should be. The average Tasmanian residential customer pays \$300 less per year than the equivalent mainland customer does for sewerage and water.

Apart from a minuscule price difference, the only thing the Government policy addresses is a change in time frames. There will be a minuscule price benefit, no change in quality of outcome and there will be a change in time frames. They are proposing to implement the same plan TasWater has proposed in seven years rather than 10. That could only result in bringing forward projects that are to be completed in the last three years. It will only affect three years of projects. This definition of what the outcome of the Government's policy is never gets clearly looked at.

Many people have talked about the risks of accelerating upgrades. We are talking about hundreds of millions, and even more than a billion, of dollars of investment. If you try to speed up the implementation of such major, complex projects, it will probably end up being more costly. Other people, I am sure, can talk about the finances better than I can. There will be quality compromises in repairing pipelines, replacing pipelines and replacing sewage treatment systems. Some quality compromise will be deliberate, where it is planned to aim at a lower standard to meet the time frames. There will probably be mistakes. There will be compromises that are inadvertent.

The issue I fear most is that the minister in charge of TasWater could seek a change to permit requirements that immediately make noncompliant sewage treatment systems compliant. A few year ago, the one and only compliant sewerage treatment system in Tasmania was one of the

PUBLIC

oldest with the worst and weakest environmental effluent standards in the state. That's why it was compliant.

The Government's policy does not define the water and sewerage problems or set targets beyond what TasWater has already done. They do not identify what is wrong with TasWater as a management body and a governance structure, or what are the advantages of a state government model, in terms of governance and management of TasWater. The state Government does not address the risks of accelerating the work plan. The state Government has not looked at other strategies that have been considered, such as loans to TasWater. They have not clarified the benefits. There will only be benefits in terms of time and they will only apply to three years of the projects out of 10.

I have seen their submission to this committee. They talk about modelling that shows additional economic flow-on benefit from investing over a shorter time frame. If you look at specific projects, the detail has never been developed, so it is hard to believe you are going to see that same flow-on economic benefit. The economic benefit is only coming one to three years earlier.

One thing I want to correct in my submission. I said in my submission that 25 per cent of Tasmanians are not connected to TasWater for sewerage - that is correct. The figure of 20 per cent of people not connected to TasWater for drinking water should actually be 15 per cent. I think once the state Government takes over TasWater, there are going to be a lot of communities that will start pushing for a connection for sewerage and water.

If you add to the budget for the upgrades of another 25 per cent of Tasmanians - who generally are not connected because they are further out from existing small towns - it is going to be an amazing increase in cost. I could not even guess at it. The Infrastructure Tasmania report includes a list of projects. I have checked every media statement from the Government and to my knowledge the Government has never endorsed that as a work plan. There is no expectation that any given project that has moved from year X to year Y to be done earlier is going to be a commitment of the Government. They could move those specific projects how they wish.

Just a couple of final comments about what I think this committee and the Legislative Council might want to do. I cannot imagine how you could possibly start debate on this legislation without demanding a full statement of policy and a detailed plan of what they are going to do, when they are going to do it and all the financial implications. One suggestion I have is that the legislation could be amended. In the absence of such a detailed policy, you should feel obliged to amend it to commit to the existing TasWater work plan so that Tasmanians have confidence that if the Government is going to take it over, we do not end up with all those risks such as trying to speed up projects and dodging environmental standards. That is it. I am happy to take questions.

Mr GAFFNEY - I appreciate the work you have been doing, Peter. Just one comment and I will pass over. Mr Old, from the THA, presented to the committee and was enthusiastic that TasWater ownership would go to the Government. He made the comment that -

One of the commitments we have had in conversations with state Government is that if businesses are not making any changes to their business or the regulation going through, they are looking at changing the EPA or at least looking to fix the infrastructure themselves.

PUBLIC

I asked Mr Old whether he'd had conversations with the Treasurer about changing the EPA. It worried me a bit that was a conversation they'd had.

He backtracked when I asked him about that. What would be some of the concerns you might have with the Government interfering with a body like the EPA?

Mr McGLONE - The type of interference could be along the lines of, 'The current operating standards are too high - we want to change them to make a particular system compliant'. Or they might say, 'We want to upgrade a system and the proposed permit conditions are too high'. I think that is a more likely scenario. It is interesting to reflect on the Infrastructure Tasmania report. It highlighted that one of the biggest risks to delivering the seven-year work program was the EPA. The risk is - and they were being straight about it - that you cannot always guarantee how long the EPA is going to take to assess a project and permit it. Or whether they will permit it, or what the conditions will be.

I think if a business lobby is suggesting that risk needs to be dealt with through changes to the institution and how it operates, I am really in fear that we will end up getting upgrades to sewage treatment systems in particular, but that they will not deliver the standards we expect. This probably will not happen in every case; it will happen for critical pieces of infrastructure where they have become delayed and it becomes a political issue so there will be a push to make things happen in a time frame.

Mr GAFFNEY - One of the things presented to the committee when TasWater first appeared was the amount of regulators and bodies that they have to abide by in going about their business. Sometimes they also have to make judgment calls about where they put their finances or where they put their efforts and that sort of thing. From Mr Old it sounded as though there had been a sort of carrot wave - 'We hear what you're saying about trade waste, it's the EPA, we may be able to fix that for you' - so I am pleased you have been able to comment on it. Thank you.

Mr McGLONE - On the trade waste issue, I notice that again there is a lack of specifics from the Treasurer. He talked about how TasWater was, I think the expression was 'heavy-handed', and applied the same approach to every type of business as if they don't recognise the differences. He hasn't ruled out, nor has he ruled in, any changes to regulation to make it easier for businesses to comply. This is typical of the dog whistle approach, if you know what I mean by that, in that it is suggesting the possibility after the takeover of things becoming easier without committing to it.

Mr GAFFNEY - Thank you.

Mr VALENTINE - You made a statement about TasWater customers paying \$376 less per year than mainland customers. Can you give us a bit of an outline as to how you arrived at that figure? We want to make sure, as you said yourself, that we are comparing apples with apples and not apples with oranges.

Mr McGLONE - In the appendix to my submission - and I will read out the key sentence - it says -

The Tasmanian Economic Regulator report shows that the typical annual bill for a Tasmanian residential customer in 2015-16 was \$1062. The Bureau of

PUBLIC

Meteorology national performance report for the same year found that the typical national annual residential bill for the same year was \$1386.

So in fact it is more than \$300.

Mr VALENTINE - I understand that but I am a bit concerned that what they are measuring in terms of the payments being made on the mainland is for both sewerage and water in each case, so we know we are comparing eggs with eggs.

Mr McGLONE - Absolutely it is, yes.

Mr VALENTINE - It is. That is what I wanted to confirm, thanks. I suppose we could ask other questions but that was the main one from my perspective because I think that is a very telling statistic.

Mr FARRELL - Peter, I want to pick up on a comment you made in your submission, and I know you have been active in lobbying state and local governments over a long period of time. I think it was a good submission and raised many points that others haven't raised from the angle you have come from.

Before I ask the question, Madam Chair, through indulgence, I thought your claim on the tourists not visiting towns with bad sewerage was a pertinent comment too because I have often wondered myself whether we are preventing tourists from coming because they hear we have poor sewerage and water.

Mr McGLONE - Yes, somehow they hear about the toilets.

Mr FARRELL - Yes, they have obviously not been to India, but anyway. You state that environmental standards may also be compromised by a future state government wanting to prioritise things that are politically important over those that are more urgent or important from an environmental perspective. Do you think Tasmanians are protected from this under the current model we have with TasWater?

Mr McGLONE - The short answer is yes. I have heard a lot publicly and in private discussions with TasWater and EPA people about the relationship. I think the relationship has been strengthened but it has been a difficult task getting agreement on what the priorities are. In the area of sewerage, I think the EPA has performed really strongly - and I do not always say that about them - in slowly and persistently pressing TasWater to agree to improvements over time. The one thing not mentioned by the Treasurer that is really significant is quite a recent MOU that has been signed between the two institutions. It is quite detailed but one of the overriding outcomes is a commitment to a 20 per cent improvement in sewage effluent compliance over five years, I think it is. I might have to correct those numbers.

They have been playing a really significant role. That level of MOU would be a really easy place for government to encourage change towards a lower standard. It is not a binding legal document, I understand, but something that comes out of negotiation. They cannot absolutely hold TasWater to it, but that would be an area where it would be very easy, without any transparency, to lead to a revision of such a document.

PUBLIC

Mr GAFFNEY - In your role with the TCT, how have you found the relationship with TasWater? You would obviously have some concerns over some of the projects and the impacts on certain areas and environmental issues. How have you found the relationship you have had with talking to TasWater about certain issues you may have over certain projects?

Mr McGLONE - I do not think specific projects have come up. They have only been in existence for a short time and I have dealt with them mostly about why the Government would be taking over and whether there is a crisis, really at a fairly high level. Their senior people and engineers have been incredibly helpful, but I do not go to them with a complaint about when they are going to connect Dodges Ferry or why the next-door neighbour's town system is poor. I just have not done that.

Mr GAFFNEY - I was more alluding to where there might be some environmental damage through spills or whatever that you have been involved with as a conversation. I heard there was a break in a pipe somewhere and TasWater fixed it as quickly as they could, but someone from the Government said if the state Government owned this, that would not happen, they would fix it. I am thinking, how do you do that physically? The pipe is underground, under water, and they are sort of using a media marketing campaign to say, 'We can fix all this.'

Mr McGLONE - They don't have a plan with targets about the reduction of sewage spills. They haven't even aimed for a moderate reduction.

By all means, I'm happy to take more questions, but I would like to get on the record that there was a question asked earlier of Mayor Foster about why this is all happening and why it is happening in this way. I have a very firm view that the Government - and I think it has been said publicly - is creating a sense of a crisis. They are wanting a conflictive issue. They are wanting, if you like, an enemy to fight against in TasWater and councils in the election. It may surprise you to hear me say that I think it is absolutely the Treasurer's expectation that this legislation will not get through because, frankly, it will be his worst nightmare. He will lose his election issue. He will lose the bogeyman he wants to fight against in the election. If it is voted down, he will also point out why the Legislative Council is being obstructive.

I am just saying that you have to try to read the motives of politicians, and I think the motivations are everything about an election issue. There is absolutely nothing to commit them to actually rolling out these initiatives or even attempting to roll them out. If it fails before the election, after the election they could find a number of strategies of avoiding bringing the legislation on. Or they could bring legislation on that is even harder for you to support. Easiest thing in the world. Governments do it all the time when they want an easy way out on an unpopular decision.

Mr Gutwein is smart enough to know that he could revisit the issue after the election and carry through with the reforms as stated. He could change them to be a bit more acceptable or he could change them to be much less acceptable in your eyes. He could find reasons that there were other priorities politically and he can abandon the legislation so the election advantage has been gained. This is a perfectly rational political strategy. The reason he wants that fight distraction is evident: he probably cannot win an election fought on certain other issues.

That is my interpretation of his motivations and his true political strategy in all this.

PUBLIC

Ms RATTRAY - I was thinking about what Peter just said. Is he suggesting we pass it just because it would be a problem?

Mr McGLONE - That is what I feared some people might think.

You have to deal with the legislation that is in front of you but to repeat what I said earlier - this is my recommendation and I cannot demand anything - I do not think this committee and the Council should be trying to deal with legislation without all those questions about policy - I had a whole page of them - being clarified. How could you possibly start considering such a major change that affects three-quarters of Tasmanians -and multiple billions of dollars' worth of infrastructure and you do not know why they are doing or what their objectives are? This Council has a history of not setting policy for government - that is the tradition - but, by crikey, you ought to demand what theirs is.

Ms RATTRAY - Thank you for those wise words, I appreciate that.

Mr McGLONE - Thank you.

CHAIR - Thank you very much for your submission and for taking the time to come and speak with us today.

Mr McGLONE - Thanks for listening.

THE WITNESS WITHDREW.

PUBLIC

Mr MILES HAMPTON, CHAIR, **Mr MIKE BREWSTER**, CEO, AND **Mr DEAN PAGE**, GENERAL MANAGER FINANCE AND COMMERCIAL SERVICES, TASWATER; AND **Mr DAVID DOWNIE**, MAYOR, NORTHERN MIDLANDS COUNCIL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Ms Armitage) - I remind you that you are protected by parliamentary privilege but any comments you make outside the hearing may not be afforded such privilege. The evidence is being recorded and the *Hansard* version will be published on the committee website when it becomes available.

Mr HAMPTON - Today I would like to briefly address some of the comments included in the written submissions of the Tasmania Chamber of Commerce and Industry, Property Council, Tasmanian Hospitality Association and the state Government and some of the responses to questioning by this committee. I also intend to make reference to the recently released Productivity Commission report.

In its submission the TCCI said that it approached the issue with an open mind during meetings with TasWater and the state Government. The TCCI announced this position shortly after the Government announced its position and had no dialogue about a possible takeover with TasWater until I initiated a presentation to their board several months later.

The TCCI claims that we are not focused on business customers and it is true, but we are not in isolation. We are focused on all of our customers - business, residential, everyone. The TCCI says that we should be listening to our customers. I doubt there is an organisation that does more listening to customers than TasWater. We are required by law to use it in framing our submissions to the Economic Regulator in respect of our price and services plan and to detail in that plan what customer engagement we have had. The TCCI also says that we are driven by returns to owner councils, but nothing could be further from the truth. In respect of returns to owner councils, we are simply complying with both the promises made at the time of the reform and also the legislative requirements, as I explained when I was before you on a previous occasion, returns to owners are of equal priority to all other objectives. In any event the dividends paid to councils would have had an immaterial effect on the rate of progress of our capital expenditure program. In their responses to questions from this committee, the TCCI expressed the view the real problem was the ownership model; they said, and I quote, 'It is fundamentally flawed'.

The issue is not one single piece of evidence was presented to support such a contention. Indeed, in my experience to the contrary, there is absolutely nothing wrong with the ownership model. The argument seems to be that 29, that magical number, is the problem. I have been a director and occasionally chair of corporations where there has been only one shareholder and it was far more problematic than my experience at TasWater. Our owners let us get on with the job knowing the EPA, DHHS and the Tasmanian Economic Regulator are scrutinising everything we do.

Yes, we seek our council owners' input into key decisions, but all the while ensuring decisions that are the domain of the board remain the domain of the board. The Property Council in its submission says the reform that started in 2008 should now be finished. Apart from the fact it did not start in 2008 but on 1 July 2009 and was interrupted by the transition to a single corporation on 1 July 2013, if it were done and dusted, debt would be \$1.5 billion higher than it is

PUBLIC

now, lifting interest and depreciation and operating costs by a conservative \$160 million per annum, causing the company to be losing in excess of \$100 million per annum.

One would have thought the Property Council, of all interested groups, would understand the link between debt, interest expense, depreciation and profit. In its submission, the Property council claims substance to its position on the basis of a survey of Tasmanians. This poll has been universally discredited as a push-polling exercise with the questions clearly designed to achieve a result to suit the Property Council. It has been debunked by numerous commentators.

It asked customers if they were concerned about our prices and of course most of us are hip-pocket driven and would say, 'Yes'. What the Property Council does not say was that nearly half the tariff increases subsequent to the reform have been as a direct result of reduced tariffs to commercial customers, by and large the constituency represented by the Property Council.

The Tasmanian Hospitality Association in its submission talks about more water alerts, but as we all know they will be gone roughly about the time the Government proposes to take over. It also says trade waste is a massive problem to its membership and wholeheartedly endorses the Government plan to invest more to fix infrastructure when keeping prices lower. Across Australia businesses pay for trade waste compliance. Why should it be any different in Tasmania? If businesses do not pay for the trade waste they create, then every household rate payer will have to pay for it. Is that fair?

The THA say it has been working with Government for many months to look at options to fix the trade waste issue for industry and its members. It has not engaged at a high level with TasWater to have the same discussion. I remind members of some facts. We are legally obliged to remove cross subsidies. Trade waste is the biggest contributor to waste water treatment plant noncompliance and sewer main breaks and blockages. More than half our trade waste customers are fully compliant and we have given effective businesses 18 months to comply.

To do what the Tasmanian Hospitality Association wants would be to perpetuate cross subsidies from households to business. What do households say? Business should pay. What does business say? Business should pay.

In their response to questions from this committee, the hospitality association seemed to indicate that they have done a deal with the state Government such that under its plan, either TasWater or the state Government will fund the trade waste compliance costs of business. What has happened to no cross subsidies? They seem to blame the trade waste compliance issue on the poor state of our infrastructure, but in doing so, they are completely wrong. If they care to check what we will accept into our sewer infrastructure, it is no more stringent than what is accepted in other states - that is, the state of the sewerage infrastructure is irrelevant to what should and should not be allowed to be put into sewers.

In respect of the state Government, they said tariffs were up 51 per cent since the reform occurred. What they did not acknowledge was, first of all, that when the reform first occurred we were contemplating compounding 10 per cent increases in tariffs for 10 years. We knew as a board of the former corporations and TasWater that that would be unacceptable to the Tasmanian community. Indeed our owner councils conveyed to us a very strong desire to keep tariff increases at the lowest possible level, which we did.

PUBLIC

What the Government did not acknowledge in response to that question is that approximately half the tariff increase that has occurred for households in Tasmania has been as a result of the removal of cross subsidies where business was cross-subsidising households.

To criticise us for complying and to imply 51 per cent is just simply because our costs have gone up - half of that increase is a direct result of the removal of the cross subsidies, which the big end of town - the commercial property owners in Tasmania - have derived the benefit from.

In the case of the TCCI, Property Council and Hospitality Association, they demonstrate both a lack of understanding of the competing objectives TasWater faces, but also, in my opinion at least, show a single-minded focus on their particular sectorial interests to the detriment of the broader Tasmanian community.

In all significant reforms, there will inevitably be winners and losers. What is important is the losers be listened to, but also that they are not able to exert unfair influence to perpetuate the inconsistencies and distortions that led to the need for reform in the first place. If governments want to soften the blow, let them do so, and let them do so openly and transparently. For example, the Tasmanian Government could lend or grant money to businesses affected by the need to achieve trade waste compliance. Of course if they did that, those that already have achieved trade waste compliance may say, 'This is not fair', but do not ask TasWater to continue to accept the waste that should not enter the sewer system.

I would now like to turn to some brief comments about the Productivity Commission report released on 15 September.

CHAIR - Is it easier if people ask questions on what you have said as you go? Would members prefer that? Or wait until the end?

Mr GAFFNEY - Did we table that report?

CHAIR - I am not sure we did. Did we table the report?

Mr GAFFNEY - It has just been released. Could you table all this?

Mr HAMPTON - Today I was proposing to table our feedback in more detail that I have covered, but also detail around the Productivity Commission report.

CHAIR - That would be good. Thank you. If you would like to continue? I just wanted to check if members had questions as you were going.

Mr HAMPTON - I would encourage you not to try to read the 498 pages, as Mike and I have done on several occasions. The report commissioned by the federal Treasurer in February of this year is highly critical of the Tasmanian Government's legislation drafted for the purposes of the TasWater takeover.

It lists its criticism and concern at least 14 times throughout the rather lengthy report. The report outlines how local ownership of distribution services has improved productivity, accountability, long-term planning and responsiveness across Australia. The Productivity Commission, a key independent advisory body to federal government, and indeed Australian governments generally, is very clear in its report, saying that governments should not

PUBLIC

backtrack on water reform. It uses the Tasmanian Government's takeover legislation as an example of what not to do. In a damning criticism of political intervention in the regulatory process, it says -

The Tasmanian legislation will greatly constrain the role of the Independent Economic Regulator, and impact adversely on efficient service delivery.

It goes on to describe the Tasmanian Government's move as a retrograde step contrary to the National Water Initiative agreed to by all states and territories and the federal government. For the record, TasWater made no submission to the Productivity Council, but indeed a Tasmanian Government agency did and it endorsed the compliance with the national water reform initiative.

If I may summarise the position facing Tasmania, the key issue is that the Government has failed to show that its plan will provide water and sewerage services fairer, faster and cheaper. The reality is that under the Government's plan, the reverse will be the case.

It will not be fairer, as evidence presented at this select committee suggests, as the Government will clearly play favourites to the benefit of vested interests.

It will not be faster, as the disruption and the sheer volume of planning, designing and tendering for major infrastructure projects will slow progress, rendering the Government's claim a mirage.

It will certainly not be cheaper for customers. The Government's extra and unnecessary \$600 million of debt plus the \$140 million taken out of consolidated revenue to pay councils means that Tasmanian consumers and taxpayers will in effect over time pay significantly more.

If councils have to increase rates, they will be paying more again. As it stands, the Government's expensive program does not even include the relocation of the Macquarie Point sewage treatment plant, the resolution of the Launceston combined system and stormwater sewerage issues or fix the Cameron Bay plant to facilitate MONA's stage 2 development.

The overwhelming concern is that the Tasmanian Government's legislation to takeover TasWater fails in its fundamental duty, a duty to protect the long-term interests of consumers, and it runs counter to agreed reform, independent oversight and all the reasonable principles of fairness. Thank you, Chair.

CHAIR - Thank you very much. Any other comments before we go to questions?

Mr HAMPTON - If I could make available a document?

CHAIR - That would be very good. We will table those.

Mr GAFFNEY - I have four questions but they are all independent so I'm quite happy to do one then come back and let others share the space. I do not have a question on trade waste. I think we dealt with that one last time ad nauseam.

Can you provide your perspective on the three you just mentioned - Macquarie Point, the Launceston combined system and the Cameron Bay wastewater treatment plant? The issues and

PUBLIC

the funding models of those three because we haven't heard a lot about them. I want to know TasWater's take is on those three projects proposed.

Mr HAMPTON - The Macquarie Point wastewater treatment plant is one of the better performing treatment plants that was transferred to TasWater. It is ranked thirty-seventh in terms of when we might consider doing something. In any event, if we were doing something, it would be about extending the life where it is. It is a reasonably compliant plant. We have been lobbied by the former chair of the Macquarie Point Development Corporation, by former ministers and by CEOs that we should move that plant because it was important. Aside from the fact we may not get regulatory approval - remember, our expenditure has to be prudent and efficient, so we might not get regulatory approval to spend the money - the question is one of equity and priority. It is well down the priority list. The equity issue is: why should TasWater customers incur a cost to pay for something that does not need to happen for them? We have made it quite clear in our position on this that if there is a benefit to TasWater, we would pay our share of the benefit. If there is a benefit for TasWater customers, TasWater ought to be prepared to pay.

No-one was doing any work on this space and we said to the Government, 'If this might become a reality, you should fund us to do the investigative work so that when the money was available the button could be pressed, rather than waiting for another three or four years of investigative work'. It took some time to get the decision, but a grant was made available to pay for that work to be done. We undertook that work. If I recall, the document essentially says that the cost would be somewhere between \$140 million and \$150 million. It assessed that a certain component of that was a benefit to TasWater and that TasWater ought to pay, but the rest of it ought to be paid for by somebody else. It was clearly identified that if it was all passed on to TasWater customers what it would be, but our view is quite simple: we are prepared to pay for what is of benefit to TasWater customers in terms of improved compliance down the track, but there is no reason we should incur that expenditure.

Don't get me wrong: when we went to the state Government before the last federal election we included this project. We included it and we sought state and federal government assistance to fund it because it would be better to have it as part of our overall plan for the Derwent River.

Mr BREWSTER - I am involved at a more detailed level through the process. I think there is a couple of other things to understand in this. When we did that analysis of what should TasWater pay - that's the first thing: we did our own independent analysis of what TasWater should pay and the Government had analysis done by one of its own departments. I am sure you will be able to draw on that analysis. If you look at it, that analysis concludes quite clearly TasWater customers should not pay. Were they to pay, the costs would be in the order of an additional 5 per cent directly to customers on top of whatever other charges TasWater is proposing. That is the magnitude we are talking. It is not TasWater saying this - its own advice

It also addressed the question Miles raised about what TasWater should pay. It went through that in some detail and said TasWater should contribute, nominally, \$30 million at that point. We would have absolutely been prepared to contribute that \$30 million because that is the funding we would have had to have invested over the life of the plant if we did not move it. However, when we went through that process, one of the realities of this sector - and I raise this to understand that nothing is simple - is that when we move the plant to a new location at Selfs Point, the standards change so we can't apply the same standards we applied at Macquarie Point. That \$30 million we were looking at contributing was swallowed up by the additional operating costs associated with

PUBLIC

higher standards that are set, and rightly so. When you are building a new plant, you want to build to new standards.

In the end, there was no logical contribution we could see and, when you take this report further, that TasWater customers should be contributing. We have never had an argument about the economic merits one way or the other. That is a matter for governments, but we have to be able to justify to the Economic Regulator why that spend is prudent and efficient. Our position has always been that if government wants to change the legislation, it should make it transparent that is what it is doing.

Comments have been made that the Government is prepared to underwrite the move. I can assure you, if it were prepared to underwrite the move, it would be on its way. I have made this point many times. If you look at the MOU, which often these conversations go back to, the only commitment we ever received was for the \$5 million we asked for and, as Miles has said, we promoted to at least get this whole thing moving. We have never had a commitment in writing at all from anyone to move the plant. If we had, I can assure you that plant would be being moved. That is the reality of the situation at Macquarie Point. If you want to verify what I am saying, feel free. I am sure you will be able to get hold of the MOU and the Government's own report.

Mr HAMPTON - Any questions on Macquarie Point?

Mr VALENTINE - It is certainly of interest to me, but is there possibility of getting a copy of the report?

Mr BREWSTER - We have a copy of the report. You could ask the Government or Infrastructure Tasmania to provide a copy.

Mr HAMPTON - I do not think there is any reason we could not provide it.

Mr BREWSTER - I am fine with that - and the MOU, I assume, as well?

Mr VALENTINE - It is a different type of sewage being processed at Macquarie, isn't it, in terms of the industrial nature of it - or it used to be - because of the hospital waste and also what was coming out of Cascade and a tannery but now that tannery has gone. Are there other strictures around that in terms of the type of plant that has to be built or is it now considered general sewage?

Mr BREWSTER - You are talking about the tankered trade waste that goes into that plant?

Mr VALENTINE - Yes.

Mr BREWSTER - That is the most difficult trade waste to manage and it has caused a lot of the odour issues. We would make a judgment that, say, tankered waste will not go to the new plant; it may well go to Prince of Wales or another plant. I can get the specific answer but trade waste is a major determinant of the cost of the building plants.

Mr VALENTINE - That answers my question, thank you.

Mr HAMPTON - If I can move to the combined system in Launceston, this in some senses is just as challenging. When the reform first happened, the combined sewerage and stormwater

PUBLIC

pipes were transferred to Ben Lomond Water and subsequently transferred to TasWater. The value put on those pipes is the significant contributor to why the Launceston City Council is the largest shareholder in TasWater. It owns nearly 15 per cent of TasWater. The equity apportionment between the owners was on the basis that those pipes were to become the property of TasWater. The board's view is that in terms of equity between our owners and our customers, Launceston City Council - which continues to derive the revenue from stormwater put into TasWater's pipes - is the one that ought to be paying for whatever degree of separation was judged to be appropriate.

This is not a philosophical exercise, this a matter of equity. I think the value on the combined system in total is about \$200 million, so if you like Launceston City Council's equity was boosted by the transfer of those pipes in entirety to TasWater and has been receiving from day 1 a higher distribution than any other council as a result of that. The view of the board of TasWater - and in a sense it is both a legal and a moral view - is that our customers across the state ought not to be paying for the resolution of the issue, and equally that the other shareholders ought not be paying for the resolution of the issue.

Just as we have with Macquarie Point - and I provided to the *Examiner* and had published an op-ed - I took a very strong position that this issue needs to be addressed as much for perception as the reality. The reality is that the extent to which the combined system contributes to the problems of the Tamar has been independently assessed as very small, but there is a perception issue that if somewhere between 60 and 70 days a year raw, albeit heavily diluted, sewage is discharged directly into the Tamar, it is simply no longer acceptable, in my view at least.

It then boils down to who should pay. Equally as much, just as I talked about Mona, when we went to the state Government before the last election we said that as part of the additional \$400 million we were seeking - \$100 million from the state and \$300 million from federal - not only would we have relocated Macquarie Point, we would have also addressed the combined system. We did that because it would be better to address the issue of the combined system while we were addressing the overall sewerage infrastructure around the Tamar. As the previous witness said, the state Government chose to send the money in another direction. It may not have been Mr McGlone; it might have been one of the gentlemen from Brighton Council.

We see merit in linking the resolution of the combined system problems with the work that we have responsibility for, but we don't see, either on an equity basis between our owners or our customers, that TasWater should pay for it. I am not even sure we could get it through the Economic Regulator. Perhaps if a decision were taken openly and transparently, but we are not charged with doing that. I bring you back to the principles that apply to us - no cross subsidies.

I am a former citizen of Launceston. It ought to be addressed. It ought to involve state, federal and local government in finding the cheapest possible solution. I happen to have the view that the cheapest possible solution will be found by an integrated approach with TasWater, but it ought not to be one that TasWater has the total responsibility for. Mike, do you want to add anything?

Mr DOWNIE - On that point, I think it is very disappointing that the Treasurer has set up a task force. It is great that we have identified the problem, but there has been an exclusion of representation from TasWater at the level of that task force, because they are the ones with the most knowledge who will help the solution flow.

PUBLIC

Mr HAMPTON - What I should have finally said in concluding is that TasWater gets a benefit, just like MONA, and we are quite happy to pay our share to the extent that we can defend, with the Economic Regulator, prudent and efficient expenditure. No backtracking on that space.

Mr GAFFNEY - What does that 15 per cent equate to in real terms per year? What would Launceston be getting?

Mr HAMPTON - In the current year, we will pay \$30 million in distributions. Launceston will get \$4.5 million in distributions from TasWater.

Mr GAFFNEY - That is a substantial amount, isn't it?

CHAIR - Ms Rattray, do you have anything on Launceston?

Ms RATTRAY - No, Madam Chair.

CHAIR - I might make a comment, having been on the Launceston City Council at the time and being the member for Launceston.

The previous general manager Robert Dobrzynski said -

In 2011, when we tried to explain that Launceston City Council was entitled to participate in the priority dividend distribution, in the first year of Ben Lomond Water we received nothing while all other councils received millions. Launceston City Council ratepayers basically missed out on \$2 million.

Of course the case was argued with Treasury. As I said, it was Ben Lomond Water at the time. Ben Lomond Water customers, including those in the Launceston City Council area, pay for the cost of providing potable water to Campbell Town and other areas.

While I accept that we have 9120 homes with joint sewer and water, would you not think that when you take over an asset, you take over liability as well? It was well known at the time that they were joint sewer and water pipes. Launceston has been paying for things all around the state that really do not concern them. You are saying it is not fair to other areas to be contributing to Launceston's joint pipes. What has Launceston been doing for all these years, contributing to areas we do not have an issue with?

Mr HAMPTON - If indeed no value had been ascribed to those pipes when they were transferred to us - in other words, if the Launceston City Council had not been receiving 15 per cent of the distributions - I could possibly be persuaded to your view. In fact, they transferred them to us. If my recollection is correct, at the time of the reform, they argued that they wanted to keep them.

CHAIR - I think most councils did.

Mr HAMPTON - No, they wanted to keep the combined system pipes and lease a share to TasWater. The government of the day said - I was not involved in the debate, but I have certainly sighted the documentation where the Launceston City Council ran the argument - 'We want to

PUBLIC

keep those pipes and we will charge TasWater a fee'. It would be really interesting if the shoe had been on that foot what the argument would be.

Mr VALENTINE - Was it a stormwater reason they did that?

CHAIR - Possibly. I do not have that documentation but I wonder whether it was because TasWater were looking to charge it \$5.8 million for the fact that stormwater went through the sewer pipes.

Mr HAMPTON - There was actually a very significant -

CHAIR - That was the original amount.

Mr HAMPTON - No, sorry, Chair. There is a very distinct difference in timeline. The debate about who would own the combined system occurred in 2008. The discussion about the proposed fee from TasWater to the Launceston City Council occurred several years later.

CHAIR - I accept I do not have the dates for those.

Mr HAMPTON - So you cannot link the two.

CHAIR - I know but it is interesting. Do we have any further comment on Launceston?

Mr GAFFNEY - That was the missing link, wasn't it?

CHAIR - There are always missing links.

Mr GAFFNEY - The third one was the Cameron Bay waste.

Mr HAMPTON - I do not think we have had any formal discussion with government or anyone other than MONA in respect of this, although more recently some other parties.

The issue here is that we have a treatment plant. It is not as far down the list as a priority as Macquarie Point is. Around all of our water treatment plants there is what is known as an attenuation zone. We have to comply with odour. It is a 400-metre attenuation zone. As I understand it, the second stage of the MONA development means that they want to construct a hotel inside that 400-metre attenuation zone. We only have to comply with the odour requirements at the outer perimeter of that 400-metre attenuation zone. So, are you going to spend hundreds of millions of dollars on a hotel? We have had no high-level significant engagement on this. The issue is significantly about odour, but we openly acknowledge that it is a plant that we would be revisiting whether it ought to be there, full stop.

Again, we take the view that if we were engaged in a conversation about that and there was a desire on the part of governments/owners that we help facilitate it, if we were to bring it forward, someone ought to pay the bring-forward costs. In the same way that we are prepared to acknowledge in relation to the combined system in Launceston and MONA that we should pay our fair share, we would take the view that others should pay their fair share if indeed we, EPA, DHHS and the Economic Regulator were happy that we bring it forward faster.

PUBLIC

We could potentially spend some money on trying to reduce the attenuation zone. I am not an engineer; we may not be able to do that, but I come from a space where you don't want to spend dead money. It would be a pity to spend money on that if, in 10 years' time, we were going to relocate that plant or redirect the sewerage that goes to that site.

I don't have a sense of the likely cost of relocation. I am in receipt of documentation that suggests that some time down the track we would be looking at it. If a government came to us, if we are standalone and independent, and said, 'We want you to do something about that', and we talked with the EPA, DHHS and our owners, taking the same principled approach, that we should pay for the benefit that we get and others should pay from a benefit if the cost is greater than that. We would not have an issue with that - same standard.

Mr BREWSTER - To add to that, first of all to clarify, if it hadn't come through, when Miles is talking about 'no engagement', he is talking about no engagement with government.

We have, at my level, engaged - indeed today - with MONA and the EPA because we are looking for ways to allow it to proceed, but those ways have to be equitable for our customers. That method - whatever it might be, and we are looking and exploring - has to be consistent so that any other customer be treated in the same way. More importantly, all parties need to be thinking about the long term. I have to give credit to MONA and their CEO; he gets this. We are looking and saying, 'It's not a simple exercise to resolve the situation with Cameron Bay'. It may well be - and this is what we have to look at strategically - that sewerage has to go all the way out. The most sensible thing might be a new plant somewhere else.

All of that is quite strategic, it doesn't get resolved in five minutes. Often that is why we are challenged in the environmental space in terms of timing because you cannot look at every plant in isolation. You have to develop a long-term strategy. You have to evaluate all the options because if you don't, it is very, very easy to spend millions of dollars that customers will never know about - no-one will ever know - that you just took the easy route. Blackmans Bay sewage treatment plant, for me, is a classic example of that.

The easy route for us - and this is a plant where we are consolidating a number of plants into one - would have been, 'Hey, we won't do that. We have requirements on us just to upgrade the existing plants on the Derwent. We'll build a new greenfield plant at Blackmans Bay. We'll upgrade the other three plants further down the Huon'. Who would really know?

That is why it takes a long time. We didn't go and build a greenfield plant. We took longer at Blackmans Bay. It is a \$50 million project. We took a lot longer than we had originally anticipated because we found a way to virtually reuse every piece of the existing plant. No-one will ever know that we probably saved many millions of dollars for our customers.

The project probably took a year or two longer than it should have, but for a year or two's exchange, those customers will never have to pay that additional cost. That cuts right across the state. TasWater has been going for four years. One year of that was putting the business together. For the first time you have a consolidated view and you are able to start looking strategically across the state, across all these plants. You have to build your strategy and deliver your environmental improvements at the same time. I believe that is a very important element to understand in the environmental space in particular.

PUBLIC

Mr VALENTINE - On Cameron Bay, have you explored trigeneration and perhaps building treatment plants underneath new structures like their hotel? They say they do it in Singapore. Would you like to comment on that?

Mr BREWSTER - I have to be careful I don't speak for MONA. MONA is interested in the conversations we have had with its CEO. MONA is interested in all sorts of alternatives and is investigating them. My view is we should be looking at all the options: what they can do, whether we rebuild on that site, whether we don't have an STP there at all, whether we put a pump station in and transfer somewhere else. We then compare all the options and determine which makes the most sense for the customers and for MONA. MONA might say, 'We're prepared to pay a bit more because if you go down this path we get brand benefit for that'. They are the discussions that need to be had. That's the sensible high-level discussion that is going on, and needs to go on.

Mr VALENTINE - So there are some good opportunities for energy scavenging and all sort of things, aren't there?

Mr BREWSTER - It is possible. One of the cautions I give with cogeneration is that cogeneration or trigeneration generally needs scale. That is one of the things you have to first cross check. If you go to Melbourne, out at Werribee there are probably two plants servicing all of Melbourne and you're going to have scale. With TasWater's 79 level 2 plants, 113 in total, getting scale is always the challenge. You might do it anyway because it is good for the environment. That might be a choice that is made by MONA.

Mr VALENTINE - I come back to the statement you made as you exited last time. You said, 'I'd like the opportunity to proffer a way forward'. You might have dealt with some of that in what you have said today, but can you remember making that statement? Are you prepared to do that now?

Mr HAMPTON - Yes, I am prepared to do that now. I think TasWater should be allowed to get on with its \$1.5 billion program, it should be left alone and held accountable as the EPA, DHHS and the Economic Regulator want to do. The \$140 million the state Government has found as being available to be paid to councils ought to be made available to the Launceston City Council as a down payment on the establishment of its stormwater pipes in Launceston. That is option A.

Option B is the proposition we took to the state Government before the last federal election - 'You give us \$100 million and help us get \$300 million from the federal government and we will take the commercial risk that the cost in Launceston and the cost of relocating MONA won't exceed \$400 million'. That is the simple solution I have. The Government paying \$140 million to councils is not going to help us achieve either of those programs any faster.

CHAIR - You say about the stormwater pipes in Launceston, do you mean for Launceston to separate them?

Mr HAMPTON - This is why I made the earlier remark. It is better done as part of our plan. Let us leave the issue of who should pay for it. We think there will be a range of solutions in Launceston. If the decision is made that we want to completely eliminate the possibility of untreated sewage going into the Tamar, the cost will be significant and there is a range of solutions. It will be a mixture of solutions. For some parts of Launceston City it will mean

PUBLIC

complete separation. It may involve storage, so in a major storm event effluent is stored and then run through the treatment plant.

It may flow into the design. We are working on our greater Launceston sewerage improvement program. There are seven wastewater treatment plants discharging into the Tamar. That is likely in our planning to come down to either one, but possibly two. We will spend about \$400 million ourselves on the sewerage network and plants around the Tamar, which is why we say it is better to look at the combined system and what we have to spend as a collective to come up with the lowest cost solution to the Tasmanian community, with TasWater paying what it ought to be paying, and others paying.

As has probably been discussed in this committee, the CEO and I and Mayor Foster when he was chief owners' representative put that proposition to the state Government; we went to the federal government and we were knocked back.

CHAIR - I was told by TasWater representatives in the past when they have come to see me at my office that it certainly was not an answer to separate - to put in new pipes. A bit like London, because of clay pipes already there, even the ones that are separated, crack and will leak.

By separating the pipes, you will still never stop sewage going into the Tamar. Their opinion was that the best option was to have another tertiary plant to be able to cope with the sewage in heavy rainfall. We all know that in heavy rainfall, the biggest problem is we get too much water coming through the plant and it cannot cope.

Mr HAMPTON - Yes.

CHAIR - Their feeling was that separating the pipes would be something that was not going to achieve the outcome for the money that it was going to cost. The best way was to actually treat it before it went into the river.

Mr HAMPTON - Mike will probably add to this, but my understanding, and I did make it clear earlier, would be a combination of initiatives. There are some parts of Launceston that would be totally impractical, as I understand it, to consider a separation.

CHAIR - I should say that I have a conflict of interest. I have a house that has joint sewer and water pipes.

Mr BREWSTER - Chair, I might like to respond to that. Rosemary, first of all, there are parts of Launceston that can easily be separated. In effect, they were already separated at the household level, but still both pipes, stormwater and sewerage, come into the combined system. What we are saying is, yes, it is possible to - we would expect under our program - we will take that gain as part of our major upgrade to the sewage treatment plants. There is no question of that. There might be some parts where it is worth separating. I think the number I recall was between \$300 million and \$500 million to do a full separation.

CHAIR - That is for 9000 houses?

Mr BREWSTER - Yes, that is to go through. It may cost more than that or it may not. This is the debate at the moment - how much do you want to spend? From a perception issue, I think

PUBLIC

the Launceston residents would love that. Whether ultimately Tasmanians are prepared to pay for it, is another issue.

The other option, and just to be clear with the plant and the other options - the other option, which is the mid-range option - is to build that storage and hold it back. Just to be clear, you need that before you can treat. You would not try to run all the stormwater into a new treatment plant.

CHAIR - Too much capacity?

Mr BREWSTER - It would do exactly what the current system does, which is go around the plant, get a bit of chlorine on its way through, then when you get heavy rainfall, it would be ineffective. It is a complex matter. From my perspective, no-one has resolved what the sensible solution is. There is an even lower cost solution, which is just do filtering and more screening, but will that satisfy customers?

There is a bunch of choices. We were working towards that choice when we found we could get no money. We have made our input; and we are now focusing on what we can do in Launceston around the sewage treatment plants. To the extent there is a quick win with a combined system, we will take that win.

CHAIR - I must say your representative was very helpful and very good when he came to discuss the options with us.

Mr HAMPTON - With these three major projects - and there will be other major projects down the track - the real difficulty from our point of view, to a very large degree, is that the Government hasn't wanted to engage with us. It has not been interested in engaging with us. It has just been interested in throwing stones at us.

Mr DOWNIE - The point I was trying to make before was that these people are the best experts in this field and their knowledge should be used. They don't have to be agreed with but they should be put on the table and duly analysed.

Ms RATTRAY - I wanted to say thank you very much for the response we received after the previous hearings that Mike Brewster sent through.

CHAIR - Do you want us to come back to you? Craig, would you like to ask a question while Tania is out of her room?

Mr FARRELL - Miles, you mentioned the Productivity Commission report and the Treasurer has since stated that it supports the Government's claims that it will make water and sewerage cheaper. Was that your take on it and do you agree with those statements?

Mr HAMPTON - We have never denied the fact that the Government's plan would have cheaper water and sewerage prices. We have been quite open about that, because indeed they do. They are going to override the Economic Regulator and put in place a level of prices that is not cost-reflective. Let me expand on that. The Government's back-of-the-envelope calculations have them saying that our customers will be better off by \$550 over six years if their plan is implemented. In our submission at page 17 and in our appendix B we have analysed the Government's plan through our modelling, which shows that at a maximum, which is the lowest

PUBLIC

tariff increase the Government are proposing, it is a \$344 saving over the six-year period and at a minimum, it is \$286.

We have never suggested it but actually that is not what the Productivity Commission is about. The Productivity Commission is about good policy. Yes, it references the pricing - it confirms that - but we have never denied it, so I am not sure what the issue is about it confirming it. The Productivity Commission is about good policy that has been agreed by all Australian governments, policy that even the Government's own agency, DPIPWE, totally endorses, and this Government is wanting to throw its commitment to those principles out the door.

Let me go back to the pricing issue. The Government says that over the six-year period that the savings will be there, it will give \$120 million to councils. Do your arithmetic. There are 200 [sic] households in Tasmania and the Government is going to divert from consolidated funds to the owner councils \$120 million that could be available for hospitals and a range of reductions in state charges, and it is choosing to give them to councils. Unless my maths is wrong, I think that is \$600 per household in aggregate over six years, so the ostensible saving of say \$344 is offset by the transfer, in effect, of money that could be available to reduce other taxes to Tasmanians or improve services in our hospitals, schools and police. We were quite open right upfront and we have no issue with the Productivity Commission in this space. The Government was always going to deliver cheaper prices, but whether it is at a cheaper cost to the Tasmanian community is actually the more significant issue.

Coming back to the Productivity Commission report itself, it is independent and extremely damning of the Government's plans. It is saying, 'You are going backwards', and the Treasurer turns it around and his answer is, 'Well, it confirms that the prices will be lower.' It does but it also confirms that Tasmania, in terms of its policy direction, is not interested in well thought-out, proper reform.

Mr GAFFNEY - Is that \$120 million or \$140 million?

Mr HAMPTON - Over seven years it is \$140 million, their commitment, but the government assessment of prices was over six years so we did the assessment over six years of what the real tariff difference would be, which is why we talked about \$120 million.

Mr BREWSTER - And 200 000 properties is typically around the number that TasWater services. That is the maths that we are talking about. The details of our modelling are all in our submission. If you want to go back and have a look at how we arrived at these numbers, it is all there in the submission in terms of what it will actually save customers and it is cross-referenced. Everything we have put in is referenced - here is where we got the source is from, here is how we arrived at those numbers.

Mr GAFFNEY - I am just interested in the relationship - Miles, you will probably know this better because that is the sort of space you are aware of. If the Productivity Council report is so damning of the proposed takeover, if any group from Tasmania - state Government or TasWater - looks at the National Water Initiative for funding, if you are at a federal level and asked what is the most recent report about this, you would go to that document and say, 'My God, we're not going to give any money to this group because of the takeover'. The assessment at a national or federal level could be quite damning and inhibit this state from getting any funding, because if I were sitting in Canberra, there would be no way I would pass money to a group that the Productivity Commission has said was -

PUBLIC

CHAIR - Your question is?

Mr GAFFNEY - The question is, do you agree with that?

Mr HAMPTON - I completely agree with that, which would not surprise you, which is why it is an absolute nonsense. You might even consider going further. Not only might you not get some access to a pot of gold to help us with some of our challenging issues like Launceston in particular, but in fact the question might arise that if the Tasmanian Government is not prepared, why should it be getting all the GST money it is getting? If it is not prepared to comply with Australia-wide recognised reform progress, how can you defend putting your hand out for national water money or indeed for other money?

Mr DOWNIE - I would just like to add that the Productivity Commission report is very damning of water reform in Tasmania, and in particular that the reform took place but that the money meant to flow into water and sewerage went to irrigation. That is actually in that report. This whole process has been flawed from the start. If those funds had been directed to where they should have gone to - water and sewerage - we would not have the problem we have today.

Ms RATTRAY - Again, thank you for the responses. I know a lot of it was around the trade waste issue and probably everyone is over hearing about it, but I just was interested to know whether given that there needs to be some broad education, if you like, or information session. Is there any chance there can be an extension for some of those businesses in their compliance requirements?

Mr HAMPTON - Mike makes policy recommendations to the board, so I will let him make a policy recommendation.

Ms RATTRAY - Even Mr Downie might be able to say it is a direction from the owners.

Mr DOWNIE - It was interesting reading the Treasurer's response. He has not wished to make any regulation changes but has suggested there could be a bit more leniency. That would be a good way forward and an issue that has been raised at these hearings. It has only recently come to our attention and flexibility could be good.

Mr BREWSTER - Ms Rattray rightly raised the issue around our effectiveness in educating the plumbers. We tried to engage with the Master Plumbers, and in some cases we had success but in some we have not. We cannot force them to come along to our sessions. The issue of education more broadly - and I have evidence of it that I am happy to table - has been going for a number of years - trade waste education in conjunction with the TCCI. Miles and I have been presenting around the state to forums and asking anyone to come and talk to us about trade waste. We have engaged with 3100 customers on trade waste and that is why we know 71 per cent of them are already compliant.

I want to come back and address the flexibility question properly. The issue of extending - we could extend. We could go from a generous 18 months or three years, but what is everyone going to do? If you have three years to install your trade waste device and you get no return on it, when are you going to install? In three years' time. We have an obligation, which we have committed to the EPA, to meet the improvements in our compliance. This is a year-by-year compliance improvement. Trade waste is a key determinant of whether we can achieve

PUBLIC

compliance. We would have to get relaxation in our general sewerage compliance. At the same time, we are being hit very hard publicly for not delivering more quickly on compliance. You just cannot have it all.

To go back to the question of flexibility. I have read the Treasurer's letter and the Hospitality Association's correspondence in some detail. I would like to tackle some matters and make it clear where we are really at. As to the flexibility question, we do not go in there and say, 'That is the end of it. You have to have a grease trap'. The reality is some of them will never be able to install grease traps; some will be far too expensive. 'When you get your quote' - we cannot give the quote - 'if you have an issue, come back to us'. We recommend changing practices and they may not need it.

Second, the Grease Guardian discussion. While I have read the Treasurer's letter, I have seen nothing about these flexible solutions he talks about. We respect the fact he is saying we should not be lowering the standards. He said we have not been flexible enough. I am yet to see what this flexibility is. I went to the EPA director, whom I have an enormous amount of respect and time for, and said, 'I want to take you through the grease trap guardians and explain from my perspective, because you are not the regulator for trade waste, why it is a major issue'. What these Grease Guardian grease traps do is heat up the water and skim the grease off the top. It is a low-cost solution, but what happens when they fail? These are mechanical devices. It is not like a grease trap. When they fail, what do you think happens traditionally? They are not turned on again because who is going to be running around checking every customer with a Grease Guardian and turning it on again. Why would they? There is no incentive if there is no compliance regime to have a compliance regime. I would have to have someone running out there and I do not know where these people would come from, checking all these people with Grease Guardians. When they have gone, what is to stop them turning it off? This is why, nationally, Grease Guardians are not accepted as a wholesale solution, but in some instances we do accept them. If you only have a few of them around the state, you could accept that risk.

They are not accepted because if everyone had a Grease Guardian, they would get turned off, would not get repaired, and it would not be possible to monitor the compliance, but we do try to be flexible.

Mr HAMPTON - Mike, just before you go on. I think if you did choose to call back the Director of EPA.

Mr BREWSTER - I have had a discussion with Wes and I will not put words in his mouth but I think if you called him back, he would have a different perspective on Grease Guardians following that discussion.

CHAIR - Yes, he said that previously.

Mr BREWSTER - Yes, he did. I have a lot of respect for Wes. I explained I had actually done the research independently of our business on trade waste best practice principles in Victoria. You can look it up. You can look up what they do in Western Australia. Here is why - and I will show you why they do not accept them wholesale; they are usually only used in front of grease traps. I am sure Wes would welcome coming back. The other thing to understand with a grease trap is that there is an incentive irrespective of compliance inspectors to actually clean them out because of what happens when they overload. They do not go down the sink like a Grease Guardian when you turn it off and it all washes down the sink. With a grease trap, the

PUBLIC

grease actually starts to overflow, it starts to smell. There is actually an incentive to do something about it.

The next flexibility we do not control at the moment has not been stated because I was not expecting such a debate when I came here last time. Like other businesses, such as Darwin water, we recognise in our price and service plan some customers are never going to be able to put in that equipment. We offer them an opportunity to pay a fee and not have to. It is not inexpensive, but the challenge is something for our current price and service plan. We have to get it approved by the regulator; they may approve, but until it is approved in our price and service plan, we cannot make up charges to suit ourselves.

CHAIR - So they are not being offered that at this stage?

Mr BREWSTER - They are not being offered it at this stage because it is not in our old price and service plan because that was built pre-2015.

CHAIR - That could be good for a couple of the cases. The member for McIntyre brought someone who runs a little Indian takeaway to me last week who does not understand what they have to do.

Mr BREWSTER - Correct, Rosemary; if they could contact us, we will go out there again.

CHAIR - Some have had problems and had a difficult situation with the person who had come out to see them.

Mr BREWSTER - I would welcome the opportunity to follow that up. I want to go to some of the comments made because it is a bit unfair on our people.

Mr VALENTINE - Before you do, with people paying extra if they cannot install, how does that overcome the problem?

Mr BREWSTER - It funds us to contribute to the cost at the end of dealing. If everyone did it, it does not help us and is why not every state applies this. I want to make a couple of comments, because some clearly not factual statements have been made and I want to clear them up while I have the opportunity here. One in particular, the Tasmanian Hospitality Association implied hairdressers are required to install grease traps and it will cost up to \$15 000.

I have not seen a hairdresser that generates waste, if any hairdresser out there is being asked by our people to install a grease trap, could they please contact us? It is typically \$200 to \$300. Normally what you are trying to get is a basket to capture the hair so the statement is factually incorrect.

There are other statements which I will not go through, but a statement was made about the Kingston RSL and its trade waste charges. Kingston RSL is not a trade waste customer. I do not know where this has come from, but they are not a customer. As to the West Coaster Motel, anyone who receives a bill or a quote for \$60 000, which is what is claimed here, should get another quote, but unfortunately we have not been able to contact them. We have tried to contact them and would welcome the opportunity. In some cases the bills could be as high as \$25 000. That is a reality for a large restaurant or someone who is generating a lot of trade waste, but that should be the exception.

PUBLIC

I go back to the point that the majority of people are complying. They have already paid for it for many years and they are doing the right thing. Where are they left in all this debate? I would bring it back to, please contact us. You can write to the CEO, not that I want to get 100 letters, but I am not expecting that. Our policy, and our chairman knows this, is that you write to the CEO and he always has to deal with any correspondence written directly to him.

CHAIR - Perhaps Mr Old could write to you.

Mr BREWSTER - I would welcome that, but he has not engaged with me.

CHAIR - We could pass your details on if that is all right.

Mr HAMPTON - Chair, you make a really good point there. The chief people who have chosen to take a different view to the view of the owners and the view of TasWater have, by and large, failed to engage. The state Government has failed to engage, as has the Hospitality Association, the Chamber of Commerce and Industry and the Property Council. In Mr Rockefeller's witness statement, he said he had discussions with me and I was trying to get dividends reduced. I checked my diary and I last spoke to him in 2011. When was TasWater formed?

I admitted in my opening remarks that we are not perfect and we sometimes get it wrong. We had an issue in southern Tasmania at Lauderdale with a scheme where we lent some money and to secure that money we put a caveat in place - and everybody agreed - against the person's property. Issues arose over that. While at the time we made that decision, we felt it was the right decision, when we looked at the facts again and the inconvenience it was creating - the engagement there came through one of our council owners; they did not tell us we had to change. There was a bit of publicity and it might have been mentioned in parliament - I am not sure - but we made the decision that when people engage with us, we look at our policies and if there is an inequity in them, if they are inappropriate, if they do not follow national standards, we are happy to revisit them and explore, but by and large we do not get significant engagement.

CHAIR - I am definitely going to engage with my issues.

Ms RATTRAY - I am pleased I asked that question.

CHAIR - It was very good, so thank you for that.

Mr VALENTINE - When you were last here I raised the issue of payment horizons for individual businesses that are saying they cannot justify spending \$10 000 or \$15 000 to put in a grease trap system because they are only a mum-and-dad operation and cannot afford that in the time frame required. I raised with you whether it was possible TasWater could come up with some loan arrangement over a 10-year period. Have you had any more discussion on that?

Mr HAMPTON - The difficulty with that is: who pays the cost? Is it the property owner or the occupier, and will they be one and the same in 10 years' time?

Mr VALENTINE - It would be like a caveat, wouldn't it, similar to your sewerage and water?

PUBLIC

Mr HAMPTON - And have exactly the same problem we had with the Lauderdale situation where we were forced to undo the caveats because it was causing an unintended consequence? This might sound rather flippant but maybe the Treasurer should take some of the \$140 million he has committed and put \$10 million of it aside to help businesses adjust. He is in a better position to openly and transparently cross subsidise. In the legislation around us there are no cross subsidies.

Mr BREWSTER - The chairman and I had a discussion over this; we do all the time.

Mr HAMPTON - He boxes me around the ears, if the truth be known, Rob.

Laughter.

Mr BREWSTER - I don't do that. One of the biggest challenges you face, the suggestion I have heard is, 'Why don't you help those businesses that are struggling?' My question is: 'How will TasWater judge who is struggling and who is not?' My experience is once you start that debate as a business, you end up ultimately giving it to everyone.

CHAIR - Everybody is struggling somewhere.

Mr BREWSTER - Correct, so how do we make that judgment? Governments are far better placed to deal with those things, through Treasury et cetera, and put in place a sensible agreement. If we were working with the Government, I would have to say in the same way we were a few years ago on Lauderdale - and I have to give credit to the Government for the way they responded and helped - if we had the same relationship, I don't think there would be any of this discussion or debate. We would have engaged and found a solution together, and that is the challenge right now - how do you have those discussions?

Mr VALENTINE - I guess at the end of the day, it doesn't matter who owns TasWater, it is going to be faced with that problem anyway.

Mr BREWSTER - But when you have a good relationship with government and can have those positive discussions, you find ways to get it through both parties to find a solution, but at the moment we can't have that discussion and that is an issue.

Mr DOWNIE - Chair, if I could add, you mentioned the sewerage in London. I know the sewerage system in London is somewhere near the same age as that in Launceston. They found what they call a 'fatburger' beneath the sewer - 130 tonnes of a 250-metre long rock-solid mass of wet wipes, nappies, fat and oil - which they are working on at this minute and which will take three weeks to unblock. That is the end result if we don't have this trade waste issue dealt with appropriately.

CHAIR - The issue I mentioned was the representative from TasWater had said that, as in London, the pipes are clay and will always leak, even when you put a new system in, but I accept what you are saying.

Ms RATTRAY - There are more people in London than Launceston.

Mr GAFFNEY - I framed this question because I went through the annual reports and looked at why they hired you, Mike. I thought that was quite good. My understanding is that one

PUBLIC

of the key reasons Mr Brewster was recruited into the role of CEO was the fact he is a professional engineer with a postgraduation qualification in project management and extensive on-ground experience in the delivery of major infrastructure projects from programs, including responsibility for the success or delivery of one of the largest infrastructure projects in the state in recent decades, the construction of the Tamar Valley Power Station at \$430 million.

I think this places you well to provide a professional view on the benefits and risks of the Government's proposed acceleration of TasWater's program to address the crisis in water and sewerage, so I would like you to take the opportunity to share your point of view on the risks of the acceleration, because that is what the Government is saying - 'We'll do it cheaper, faster, quicker'. I want your professional opinion about that premise.

Mr BREWSTER - You accelerate and fast track when there is a crisis. I think if you carefully dissect and read our report - and I am happy to give you examples - there is no crisis. You don't have a crisis when you have a plan. You don't have a crisis when you are improving. If you go to the appendix to our submission and look at the actual trends, I think there is one trend that has gone particularly backwards, which is water breaks. All other trends - if you work your way through that - every one of them in the four years of TasWater that I recall are heading in the right direction. I am happy to be corrected if I am out by one, but go and have a look - there is no crisis.

If there were a crisis, certainly you would be saying, 'Okay, let's have a look at fast tracking', because you fast track when you have a need. Putting that aside, when you go to the risks of fast tracking, project management in some ways is a pretty simple science. There are only three core factors and you are always trying to balance them - time, cost and quality.

If you want things done faster - it is called the iron triangle - anyone can look it up, it is all really straightforward. If you want to do it faster, you have to compromise your other objectives. Your other objectives are cost and quality. Based on my experience, I would argue it is not unreasonable in a fast-tracking arrangement to make that choice, but you have to be prepared to pay the money or accept lower quality. Hence why they - I should not speak for the Government - are probably rightly in saying there is no limit on expenditure, because they do not know what the cost of acceleration will be.

There will be a cost. We have not factored into any of our modelling the cost of acceleration. Fast tracking can add between 10 and 20 per cent just typically to the cost to projects. The other thing to bear in mind when you are doing a major program like this, you are also developing - strategies. It takes time to develop those strategies. If you are going to shortcut the strategies, and I think one of the submissions - Pitt and Sherry - made this comment in their response to the Tas Infrastructure report, from recollection -

Mr VALENTINE - It is page 35 on your submission.

Mr BREWSTER - Yes. You need to look very carefully at what risks you are taking on. If you are not doing things appropriately, if you are not thinking strategically first, if you are shortcutting, in effect, the development process, that is when you risk expending a lot of money. From my perspective, yes, some acceleration is possible. If you want more acceleration, you have to be prepared to compromise.

PUBLIC

I would argue the problem has been decades in the making. It will be decades in the fixing. In three years - and this is the concern I personally have as an engineer - we are going to transfer \$140 million. We are going to take extra debt, probably around \$550 million, to gain three years. In that three years you have to look at what we are talking about in terms of environmental impact.

A lot of these noncompliances we are talking about are actually not associated with environmental harm. The things you focus on are the areas where you get environmental harm. My concern is that you end up trying to do everything and you do not focus on what actually gives you the best return. In fairness, my concern is we have probably been too conservative. I have said to the team, 'Do not try to estimate what the additional cost will be', because I honestly do not know.

I do know this: in my experience in projects, if you want to fast track, you have to be prepared to pay for it. Hence my view is I can rightly understand why the Government would say, 'Do not put any financial constraints on it', because they do not know, and nor do I, what it would be. If there is no justification for it, why would you spend that money? That is my fundamental concern.

Mr GAFFNEY - Thank you.

Mr FARRELL - To follow up on the effect on the local government sector if this goes ahead. I think the Treasurer was saying there will be a 50 per cent profit after 2025. We have had other councils on and they have spoken of their concerns. You are the local government representative, Mr Downie. I would like to find out more about the concerns the local government sector has about the future of local government without having the dividends from TasWater as they currently stand.

Mr DOWNIE - First, there has been a lot of talk about the dividends and distributions. The distributions have decreased. I was talking to our council's financial officer two days ago and she pointed out that the cost our council has incurred through TasWater charging our council for areas that were not charged before is an extra \$150 000 increase per year, as well as the dividends that have been reduced.

They are not an ATM, as the Treasurer claims. The state Government's proposed takeover of TasWater could cost Tasmanian councils up to \$45.7 million after 2025.

The Treasurer has warned on several occasions that following the 2025 end of distributions guarantee in the legislation before parliament, it is likely there could be no distributions from the GBE of TasWater. He has told us we have seven years to sort ourselves out. Yes, he has promised half the profits after that time, but we could be looking at half of nothing. As for the increased debt the Government is planning to take on, I am told that a 2 per cent rise in interest rates could lead to a \$30 million increase in cost. Will we be exposed to that? Will that affect our distributions?

Long-range financial projections show TasWater will generate significant returns beyond 2025. Under the current ownership these returns will flow back into local communities throughout the whole of Tasmania. Under the takeover model, that will be decided by the minister or the Government. My own council, the Northern Midlands, could lose in excess of \$1 million per year. Launceston could lose \$6 million. Hobart, Glenorchy and Clarence could

PUBLIC

lose \$5 million each. This could have the potential to raise rates into the future of some 15 per cent. This money is not hidden away by councils but is used to fund essential community projects such as roads, footpaths, community health facilities, parks and recreational areas.

The retention of ownership of TasWater in the local government sector into the future will make local government self-sufficient and sustainable. Ripping these assets out of local government will have the reverse impact. Some councils will disappear and some will be made considerably less viable.

Mr FARRELL - We heard from Mr McGlone recently, who mentioned the tourism issue. We have had representations from the Tasmanian Chamber of Commerce and Industry, the Property Council and the THA all talking about the impact of water and sewerage on their businesses. Have you had any dealings with the Tourism Industry Council about issues of people staying away from areas because of poor water and sewerage?

Mr HAMPTON - None whatsoever.

Mr BREWSTER - I attended a conference a month or so ago, run by the Tourism Industry Council, looking at the past and the future. I sat through that and I think there was one mention of water and sewerage in the whole of that debate. I would also suggest, if you get an opportunity, that you look at the recent brand survey. That will show you there is no discussion about detrimental impacts as a result of water and sewerage. The continued debate about the noncompliance of sewage plants in remote regions is not the issues in terms of lagoons. The issues are making sure you do not get leaks, you do not get pumps, dry weather spills - that is, raw sewage running onto beaches, into oyster zones, and into drinking water areas. That is our focus and has been our focus for four years. I again go back to the point that it is all about impact for tourism. Tourism customers do not care if our pH was out by 0.2 of a per cent, but they do care if there is raw sewage going down the street. That is also why we took the decision that we must get on and fix the boil water alerts. Hence, they will all be gone by August next year. I am struggling to see what the issue is. If we need to do more, let us know. At the moment I have nothing back to suggest we are not doing enough.

Mr VALENTINE - In your report, at page 35 under 4.9, there is an independent endorsement of the state Government's plan, the claim. You say -

In preparing the report, Infrastructure Tasmania was instructed to consider no financial constraints -

You have covered a bit of that -

... to accelerating TasWater's capital program with no requirement to provide any financial modelling. Given these broad terms of reference, Infrastructure Tasmania found the requested acceleration was possible simply by adapting TasWater's own plan.

How much more work - and I suppose it is a bit odd asking the defendant - does the prosecutor have to do to prosecute his case? How much more work would be involved for the Government to truly be able to understand whether its program is achievable? Are we taking about months of work by someone like KPMG or what? I am talking about financial modelling.

PUBLIC

Mr PAGE - I think the engineering work is the precursor to the financial modelling.

Mr BREWSTER - The reality is that what the Government and Infrastructure Tasmania have done is basically moved a few columns forward on the spreadsheet to get a financial outcome that says, 'Yep, we can do it'. That is a bit coarse and maybe a little unfair but, in effect, that's what I see.

The best way to clarify this is that it has taken a year and a half to build a long-term strategic plan. It not a matter of just saying, 'We will pick that project and put it over here. 'We will pick that project and move it over here'. First of all, you have to prioritise your projects, you have to have a strategy developed.

What we have done, for example, is work out what the compliance gain is on every one of our project in terms of water and sewerage. Then you prioritise your projects on that basis. From there, you then have to model whether you can afford that rate of progress. It is not as simple as financial modelling. When you get it wrong, what you find is either there are no returns at all - we have gone negative - or, alternatively, prices would have to go to an extraordinary amount. We are talking hundreds of projects here. It is not a simple spreadsheet movement exercise; you actually have to test every decision you make. If you move this project forward, is it even feasible to move it forward? Can you build the business case earlier? Can you get the strategy earlier? Secondly -

Mr VALENTINE - That is without knowing whether the resources are available to make it happen?

Mr BREWSTER - Correct. You have to get the resources to do this work. Then what are you not going to do?

That is why it was not a five-minute exercise to build our long-term strategic plan. We have had a lot of talk about planning et cetera, but this was an extraordinarily major project. It is the first time in the history of this state that we actually have a plan for the state. We have never had one before. You can only have that when you have a single corporation. If you talk to regulators - I would recommend, if you really want a grasp of this question, Rob, going to the link to our long-term strategic plan and looking at it. It is not a simple, straightforward exercise. The financial modelling is the easiest part, in my argument. Dean would probably disagree.

Mr PAGE - The important thing to add with our long-term strategic plan is that it an inaugural plan; it has a 20-year outlook of, importantly, the customer outcomes our capital program is going to deliver. It has been informed by engagement with customers and with our technical regulators to prioritise the projects put forward as part of that plan. We went out, as part of our price and service plan development, through surveys, through focus groups, engagement with different stakeholders, to understand what they thought should be the priorities for our capital program. Our long-term strategic plan reflects those priorities.

The other important thing is developing, in that plan, a very important input into the financial modelling that results in a constrained financial model. That is something we need to operate in that the Government does not. We need to know what the operating costs flow-through impacts of those capital projects are. We have 300 to 600 major projects in that program and as part of that we have to try to estimate what the operating cost impacts are in the forward and build them

PUBLIC

into our long-term operating cost profiles as an input into that modelling to make sure we can afford it in the future.

Mr BREWSTER - One of the most disappointing aspects of this whole process is that when we started this journey, it came out of a Frontier Economics report recommendation that we needed a long-term plan. That is what we should be focusing on - a strategic long-term plan. The intent originally - certainly my intent and I think the board's intent - was we would get a first cut up. For the first time we would sit down with all the players, and that included government. I did advise their advisers, 'Here is an opportunity. Why don't we get a first cut up and let's go through and see where the differences are and why we have differences? Then for the first time we have an agreed plan for the next 10 years for this state'. It takes the politics out of it. Unfortunately, because of timing, we got that opportunity with the regulators - to be fair, they've been great - we got the feedback from the customers, but we never had the opportunity to engage with the Government.

Mr VALENTINE - Miles, you said the Government is pushing the Economic Regulator out of this. Are you saying that because that is what was in the original draft bill? Is that the case now?

Mr HAMPTON - If you look at the draft legislation -

Mr VALENTINE - It is draft legislation. It was taken out of the House to fix a few things and I was wondering whether that might have been one of them.

Mr PAGE - It's draft legislation. It's even in the Government's own submission to this inquiry, on page 17. On page 19, they outline how future price and service plans will be progressed under the new water and sewer Tasmania entity. It really is government setting off pricing and government prioritisation of our capital program. Looking at this, the regulator has an advisory function rather than a deterministic function, as it is at the moment.

Mr BREWSTER - Going back to the productivity report, this is why the Productivity Commission is so concerned. This is in the exact opposite direction in terms of getting cost-reflective pricing, businesses that are run independently and are focused on innovation, which is where you get your gains and efficiency. Their primary concern is made very clear. Go into the productivity report for yourselves; it's made very clear that this is a core risk for the Productivity Commission that the reverse happens over time.

When governments take over and start removing the role of the independent regulator and removing the function of the independent board, ultimately over time, prices go in the other direction, efficiency goes in the other direction and innovation, which is necessary and essential, disappears.

Mr DOWNIE - And accountability to the communities.

Mr HAMPTON - We have gone back to the Productivity Commission and we have given you some detail. We have gone through and given you detail in the document we have given you today, but if I could just read from one of them -

Independent economic regulation encourages efficient service delivery by applying rigorous scrutiny to utilities, operational and investment decisions -

PUBLIC

This is from the Productivity Commission -

... and so requiring regular, consistent and high-quality business planning processes. It increases the transparency of decision-making and reduces the risk of political interference in price-setting processes.

If you do not read any other document, if you are sick of this space already and had enough of trade waste, I would encourage you to read our summary, which is basically just pulled out. We have given you the page reference to have a look at. It is a damning indictment of the legislation and where the Government wants to take this sector for Tasmania.

CHAIR - I have quite a few developers who have come to me with some issues. One of the biggest issues they have is to do with easements. I will read out one -

TasWater have standards which they don't appear to adhere to themselves. I recently had experience with having to take a sewer through a property with an existing easement. TasWater would not assist in any ways with negotiations with the landowner, so we did agree on a value that the owner accepted as compensation.

The issue was however that TasWater have standards on clearance distances between services within the easement. In this case there was an existing stormwater service. We could have easily placed a new sewer line with plenty of practical clearance but TasWater insisted on these standards being complied with. This meant a wider easement so we had to renegotiate the compensation with the owner.

I can fully understand clearance standards in new greenfield developments where the design has plenty of room, but it is totally unacceptable to apply the standard in existing easements, especially when trees, buildings et cetera have to be removed at the whim of TasWater, which was in this case an additional 200 mm. There needs to be common sense.

Mr BREWSTER - Could you independently forward that detail to us? We are certainly not perfect, but I am not aware of that so it is hard for me to answer.

CHAIR - I have more.

Mr BREWSTER - You can send them all to me and you can read them out, but unless I know the detail - in some cases you are absolutely right: sometimes our people, like any business, are overzealous. Because I read all the CEO complaints, sometimes I find there is much more to the story because you are only hearing one side and I have learned the hard way that you have to hear both sides.

CHAIR - I certainly agree with you. The main point was that it is fine to have these requirements on a greenfield site but sometimes if you are going through an existing property, as long as it is a practical clearance to apply those, saying this is what you have to do when you do not have the room and you know you have a practical clearance they are being made to apply. Another one here is about a decision by TasWater to make a developer upgrade a lot of sewer

PUBLIC

downstream from his subdivision. He appealed it and won the appeal with RMPAT, only for TasWater to turn around and take him to the Supreme Court.

Mr BREWSTER - There was much more to that. I am aware of that and it was not as simple as it sounds. This was quite a complex technical matter and if we had let that run through, it would have had a serious impact on all future developments. We felt there was a serious flaw in the decision and the calculation.

CHAIR - The RMPAT decision?

Mr BREWSTER - Yes, absolutely. It is very rare we would oppose it and we only do it if we see it is going to end up in significant cost subsidisation that is unfair. I am happy, Rosemary, because -

CHAIR - Maybe I will contact you with some of these. Another one was developers being asked to locate and identify TasWater's own existing assets at the developer's expense due to lack of inaccuracy of data in TasWater's own GIS systems.

Mr BREWSTER - I am happy to deal with that one as well. Dean is probably across it as well.

CHAIR - Western Perth - that there is no further capacity in the sewer system. TasWater has advised that the next developer will need to spend tens of thousands of dollars upgrading the pump stations, plus no-one wants to be the first to develop, so no development.

Mr BREWSTER - Can I do them one at a time? It would be much easier for me.

Mr GAFFNEY - Is it necessary to do individual cases?

CHAIR - They are all similar. The overall question is they are all regarding developers and the fact that the developers feel they are being made to fund something that is actually the responsibility of TasWater.

Mr BREWSTER - I might do the last one first because I know that one particularly well. First of all TasWater made the decision through its board to remove headwork charges. Government did not make this; we made this decision. To help the economy in conjunction with our owners, we went to our owners and said 'We will not charge anything for spare capacity'. That is the first thing. Developers right now are not being charged for spare capacity. The issue becomes what you do when you run out of capacity. That is the tricky issue and we have looked at this.

I got involved very recently only a few weeks ago with Dean, but we had that exact issue. It does not occur very often, but you have two or three developers wanting to develop and no-one wants to go first.

CHAIR - Because they have to pay.

Mr BREWSTER - In the old days they would have paid anyhow. Now it is very rarely that they have to pay; it is only when we have to create more capacity. What we did was say, 'Leave it to us, we will talk to the developers and find a way, because we know nobody wants to go first, to

PUBLIC

equitably share those costs', and we did. The alternative is we go back to headwork charges and everyone contributes and we do not allow the spare capacity in our system to be taken up. That is the first one and, as I said -

Mr VALENTINE - That is probably why networks charges come around the -

Mr BREWSTER - Yes, exactly, you do end up with these anomalies, but that is why it is, because we wanted to encourage development, Rob. That is exactly right and we took a risk. We took advice from Frontier Economics but we knew this would be a challenge. We said that overall surely the state is better off, even if we end up with this anomaly, because we get all that spare capacity used up. It means developers are developing in areas where there is already infrastructure, rather than building off and augmenting, which doesn't make sense. Can you just take me back to the previous one you had? I would like to deal with that.

CHAIR - Was that the developers being asked to locate and identify TasWater's own existing assets because of the inaccuracy of data in TasWater's own GIS system?

Mr BREWSTER - I am happy to have that conversation with that particular person.

CHAIR - What I might do is send you - you already have the submission. It is submission number 46 so perhaps-

Mr BREWSTER - Send it to me, Rosemary, and I will deal with it.

CHAIR - I will send it to you again, but I will just ask you one other thing with regard to another I have received from developers and subdividers, and I think they would probably like this sorted out. They are saying it is difficult to sit down with anyone because most of the time the people they need to speak to are in Hobart. The concern was about the fee and accounting being random. Sometimes they are saying, 'They invoice us', which I assume is the developer, sometimes the owner, and often it is many months after the application has been made, so they have often been left out of pocket because of the accounting system. They are not sure whether they are going to get an account or whether it has gone to the owner. Sometimes I would assume the fees have been made and they get the bill.

Mr BREWSTER - I am happy to take that. I cannot answer that here, but I think that would be really helpful.

CHAIR - I will forward these on to you and perhaps we can get something in writing. The main issue I have been receiving from developers was the easement particularly that they have to negotiate with private owners. I think in the past councils may have had the ability - from memory when I was on council and other mayors and deputies might remember - to take an easement across a property but they had to reinstate it to the way it was previously. Now these developers are telling me they have to negotiate, but the hardest part is that they have to apply to these new standards which really often are very difficult in an existing garden or backyard.

Mr BREWSTER - It may be true but I would welcome it, because I think the way we improve our business is to get this. If we are not being sensible, and sometimes people are just interpreting standards, and if I do not know and Dean does not know, I cannot deal with it.

PUBLIC

CHAIR - I accept that. If the one thing that comes out of this committee is that sometimes issues are raised with you that you did not know existed and we can address them, that is a good outcome as well. Does anyone have any further questions?

Mr GAFFNEY - Is there anything we have not covered that you would like to finish with that you think is important for the committee to hear?

Mr HAMPTON - I do not think so, other than just taking you back to my introductory remarks. As we have talked through this, it is a very complex interrelated space. We make decisions and we just talked about the headworks one. It was the right decision for the Tasmanian community, but it leaves a complex issue to be dealt with and then you have to work through and deal with it. We have an extremely complex space. Most of the people who put in submissions to this committee come with sectoral interests and, in fairness, do not have the information and you probably would not expect them to take it into account.

It is complex and very challenging. We do not always get it right but we have a piece of legislation and a shareholder's letter of expectation. We have to comply with the legislation and the shareholder's letter of expectation. What the Government is proposing is throwing out a whole lot of things that apply to us that will not apply to them. You can look at their scenario and our scenario and say that theirs looks better, but if they have thrown a reform process backwards, one of the other things in the Productivity Commission report was that they were highly critical of governments getting involved in investment decisions. They were highly critical of governments getting involved in prioritisation decisions. I think 'pork-barrelling' might be an appropriate word.

I particularly remind you of my opening remarks around the balancing of the competing interests. If we have had one overriding objective that might have been at some cost to us, it has been affordability.

If we had taken the 10 per cent tariff increases, we would not be here talking about the capital program because we would be much further advanced in it. Who would have been paying? Our onus, and I said this last time and I repeat it today, our absolute number 1 focus, balance all of the objectives, but uppermost in your consideration must be affordability.

We do not think there is a crisis. If there were a crisis, we would have taken a different view. There is no need to speed up the program. The risks to the Tasmanian community are great. I do not disagree we could have more debt, but more debt probably means higher prices sooner. We have been trying to balance all our competing objectives - tariff increases, the capital program, distributions to our owners and taking the regulators on the journey with us in terms of compliance.

They understand where we are going. From time to time they might like things done differently or done faster, but on balance, we think we have a plan. We certainly have a financial plan. We have an infrastructure plan. We have a pricing plan that is compliant with the national policy agenda rather than a pricing plan that is not compliant with a national pricing agenda.

Mr BREWSTER - One of my primary concerns here is that I think it is sometimes lost in the debate that we are talking about how much progress has been made. TasWater has only been in operation for four years. In that four years, I think it is important to understand the counterfactual here. In our first year we had to merge four businesses into one. We had to design a new operating model. We had to get three enterprise agreements to come together. We had to deliver

PUBLIC

\$2.5 million in savings in our first year. We had to put our first single state-wide price and service plan together, while keeping the business going. Did we make great gains in our first year in terms of compliance and drinking water? No. We were trying to build the statewide business.

What has not come through is that in workplace health and safety, in four years our lost time injury frequency rate has improved by 81 per cent. Our total recordable injury frequency rate has improved by 73 per cent. We won the workplace health and safety leadership award. We have been going four years. Within the third year we had won it. We won the best overall employer award in terms of training.

We won a national award for safety. We have the highest grade of service independently measured in the country against all of our peers. In the country, in our 100 000 plus, we have the highest grade of service as measured by the Bureau of Meteorology. I have heard discussions about how not enough has been done in the environment. We would have liked to have done more in the environment. Let us have a look at the reality.

In that period, dry weather spills have reduced from 155 to 66 per annum. That is the reality of this. Our recycled water compliance has gone from 69 to 79 per cent. Sewage odour complaints have dropped from 274 to 137. I can tell you that matters if you live near a sewage treatment plant. We talked about our trade waste customers - the number of consents has gone from 16 per cent to 99. That is the number with current consents and contracts. Our percentage of biosolids - this is avoiding taking the sludge from treatment plants to landfill - has gone from 56 per cent to 100 per cent.

I am not going to read them all out, but I want you to understand that it is all in here and we have not been standing still. We have probably really covered the drinking water, but I will give you just one last example. The biggest concern you have as a CEO of the business is *E. coli* strikes, because it means boil water alerts and it means people can become sick.

Last year we dropped that from 31 to 9. That is because we are building all the systems. You do not just suddenly do these things. You actually have to put all the work in underneath. You have to build the systems and build the skills. Now we are finally really starting to deliver. We are really getting that traction in the business. We have invested enormously in the systems and people. We are going to turn the whole industry and the business upside down again in a four-year period, when you finally have your statewide model working. I find that extraordinary.

Mr DOWNIE - I believe this is the best model. Local government ownership is the best model for the operation of TasWater. The water reform was done. Before it was done, it was cited there was \$800 million-worth of infrastructure rebuild required in Tasmania. TasWater and the four bodies before have already delivered \$800 million and it is cited another \$1.5 billion-worth of work is needed. There is other work on top of that, such as the Tamar River or the Launceston sewerage system.

There is a system in place to roll this infrastructure out. There are 29 councils that own TasWater. TasWater engages with us as owners. They have their regulators, as Miles has pointed out. A very accountable corporation is being set up. They have built relationships. Miles has talked about the relationship with the list of regulators. I think there is even a regulator to regulate the regulators they are answerable to. They are also accountable to the state Government indirectly and also the councils. The benefits flow back into the communities throughout Tasmania. That is why it is important to keep the ownership model as it is.

PUBLIC

I believe there is a way to protect the owners - that is, if the owners are not satisfied, this legislation may well be not legal. That legislation in section 109 of the Federal Constitution protects owners of corporations from being ripped off. That is what is happening here.

Mr VALENTINE - I guess that leads to the question as to whether you can release your legal advice but I guess you cannot?

Mr HAMPTON - Our senior counsel's legal advice was made public at the time we made the announcement. We have chosen not to dwell on that today. In our submission to you we did not dwell on that extensively. We have not in our present discussions with you and that is because we think you should judge this case on its merits. If, at the end of the day, you find against TasWater and the legislation is passed, we and our owners will have to get - we cannot do anything until legislation is passed.

What will be, will be. Our strong preference is to be judged on our merits rather than judged on our merits with the sword of Damocles against the legislation.

CHAIR - We really appreciate your time.

Mr PAGE - Despite Mike's suggestion, the financial modelling is the easy the bit. I remind committee members that we have provided, in an open and transparent manner, a great deal of financial modelling at Appendix G to our submission and compared that to the Government's proposal. We impress upon the committee to consider what the Government is proposing is potentially an \$450 million to \$550 million extra in debt being taken on by the water and sewer entity, a decrease in its ability to service that debt in time, and no significant progress over the next 10 years on Macquarie Point, Launceston combined drainage system or the Cameron Bay Treatment Plant on the submission they have provided to you and the numbers quoted there. All for \$12 to \$14 a quarter in lower bills for customers. I would like to leave you with that thought.

CHAIR - Thank you very much. We appreciate you spending the time to come back to us again, it was very important.

THE WITNESSES WITHDREW.