

**Tuesday 6 December 2016 - Legislative Council - Government Businesses Scrutiny Committee A -  
Tasmanian Water and Sewerage Corporation Pty Ltd**

**LEGISLATIVE COUNCIL**

**GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A**

**Tuesday 6 December 2016**

**MEMBERS**

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

**IN ATTENDANCE**

**Mayor David Downie**, Chair, Owners Representative Group  
**Mr Miles Hampton**, Chairman

**Mr Mike Brewster**, Chief Executive Officer  
**Mr Dean Page**, General Manager Finance & Commercial  
**Mr Andrew Beswick**, General Manager, Manager, Finance and Commercial Services  
**Mr Cam Crawford**, General Manager, Strategy and Stakeholders  
**Mayor Tony Bisdee**[TBC role?]

**The committee resumed at 2 p.m.**

**CHAIR** (Mr Hall) - Welcome mayors Downie and Bisdee - the Northern Midlands and Southern Midlands respectively. Thank you both very much for coming along to this session. What you say here is covered under parliamentary privilege because you are giving evidence to the committee. David, as the principal spokesperson for the owners representative group, would you like to make some comments?

**Mr DOWNIE** - The problem we identified, the standards of water and sewerage infrastructure throughout Tasmania, is well documented. The four bodies were formed and they have now gone into TasWater to try to fix those problems. I believe it is a very good story as to what is being achieved at the moment. TasWater has spent somewhere near \$700 million fixing a lot of water problems throughout Tasmania. In the next two years they will have removed all boiled water alerts in Tasmania. Essentially, all water quality drinking water problems will have been solved and that is a fair achievement. If you back to when these bodies started, the water reform was done to develop approximately \$800 million worth of infrastructure identified as being required to fix.

Since that time, the demand on infrastructure - the value of the refurbishment of that infrastructure - has now gone to somewhere around \$2.4 billion, of which they have already done \$700 million. It is a good success story. One of the problems we have had is that the cost for this improvement of infrastructure is being borne solely by the people of Tasmania. It is evident they cannot afford to pay. When the water corporations were first formed, the rate increases were at 12 per cent and 10 per cent. The recent prices and services plan that has been agreed upon has reduced those price increases to 4.5 per cent for three years and 3.5 per cent for a further three years. If you look into the future, over the next six years, the people of Tasmania are being asked to fork out some 30 per cent increase in water and sewerage costs. There are a lot of people in Tasmania living on welfare and their pensions only increase by CPI, so their spending power, or cost of living, is being eroded through this.

Either we have to be able to attract further funding from other tiers of government, state or federal, or further infrastructure improvements have to be taken off the program that exists at the moment. TasWater has taken some projects out of their fix-it plan because they cannot afford it. As an example, they cannot do all of the Tamar. The water treatment at Coles Bay is not on the list to be fixed. Here we have an iconic tourist destination in Tasmania, the Tasmanian economy is going ahead through tourism and agriculture and we have that iconic location not having a sewerage scheme.

Into the future I believe we all have to work together to back TasWater in the roll out of the asset refurbishment they have underway, which will in 10 years time remove a lot of the infrastructure problems in Tasmania.

**Mr BISDEE** - Thanks. There is a multitude of issues that feed into the output of TasWater. The regulators, and there are three or possibly four, that have an input into TasWater - first the Economic Regulator and the health regulations. One of the issues over the last five years has been that standards of health requirements nationally have increased dramatically. A plant that has been planned by TasWater five years ago, today would probably not meet the national standard required. That has ramped up the cost of the infrastructure spend, to meet those requirements, and therefore it has blown out to this huge amount of \$2.4 billion as mayor Downie has mentioned.

One of the problems is how quickly that infrastructure can be upgraded and where the money is going to come from. I fully support what mayor Downie has said that without huge increases I'm not sure the Tasmanian community can afford the full cost of implementation of upgrading in the next 10-year period without outside assistance from state or federal, or both. That is the dilemma.

Unfortunately, with the cost of living, our demographics, with a high proportion of pensioners in the state, it is a heavy burden to carry. However, the immediate problem is fixing the boiled water alert towns, 24 of them, and TasWater has undertaken to do that within two years. The owners of TasWater, the councils, have put in money to expedite that upgrade, because as a tourist state we cannot have 24 towns on boiled water alerts. It does not fit the clean, green image which we are trying to promote and that is what all these hundreds of thousands of tourists in the past and the future want to come and see. They expect to see a high standard of infrastructure in the state.

That is the challenge. It is impossible, but it could be made easier by some assistance with state and federal funding.

**CHAIR** - As owners representatives no doubt you have made some overtures to the federal and state governments on this particular matter over some time.

**Mr DOWNIE** - Even this morning.

**CHAIR** - What sort of response are you getting?

**Mr DOWNIE** - I believe they are interested, they just cannot find a pathway forward to deliver.

**Mrs HISCUTT** - Who is 'they'? The feds or the state?

**Mr BISDEE** - Federal and state.

**Mr DOWNIE** - I was talking to a federal senator this morning about this issue and he maintained to me he would try to help see a pathway forward for these funds to flow.

**CHAIR** - You are aware we have plenty other malls like this, Hunter Water and all over so what sort of assistance have other entities received from federal and/or state? Are you aware of any of those?

**Mr DOWNIE** - Go back to when local government had water and sewerage in our jurisdiction, the infrastructure improvements are always delivered with partnerships with state and federal governments. One of the things that was sold to us in local government, was this reform would be accompanied by substantial funds from the federal government. Those funds flowed into Tasmania, but not into the water and sewerage sector. I understand in New South Wales and Victoria, water and sewerage infrastructure is still improved today with assistance from other tiers of government.

**CHAIR** - With federal funding particularly?

**Mr DOWNIE** - Yes. The fiscal set up in Australia is the federal government raise the money, the state spend it and local government raise and spend some funds from the federal government. Essentially, the source of funds are the federal government.

**Mr ARMSTRONG** - The Huon Valley did receive a \$12 million or \$14 million grant as a council, but then Southern Water took over and they received a \$12 to \$14 million grant for infrastructure. There was money that did flow to local government at that time.

Touching on your other point, when you applied for funding through the federal/state government, do you identify a particular area or do you ask for blanket funding for whichever scheme you want to spend that money on?

**Mr DOWNIE** - Are you talking about local council?

**Mr ARMSTRONG** - No, I was giving you some facts about the Huon Valley Council. But now when you apply for federal funding?

**Mr DOWNIE** - With TasWater.

**Mr ARMSTRONG** - When you apply for funding now, do you apply for a specific scheme like, say, to upgrade St Helens water, or do you apply for a blanket funding, like \$100 million, you can spend throughout the state?

**Mr DOWNIE** - No, the plan has been put forward by TasWater. We are representing the owners. TasWater is run by the board of TasWater and then the management manage. The most recent strategy has been to adopt a project basis for funding. One of the projects was fixing the Tamar Valley and some assets down in the south of the State. We were after \$100 million -

**Mr ARMSTRONG** - So it is project-specific you applied for, not a blanket fund.

**Mr DOWNIE** - Yes, project-specific.

**Mrs HISCUTT** - So you, as the owners, apply for those?

**Mr DOWNIE** - No.

**Mrs HISCUTT** - Why were you talking to federal?

**Mr DOWNIE** - We are lobbying, as the owners, to try and get an income stream into TasWater because we believe it is imperative that happens to alleviate -

**Mrs HISCUTT** - Yes. I was a bit confused because you were lobbying TasWater storage.

**Mr BISDEE** - One of the reasons is it is important to demonstrate the owner support program is going forward. It is a 10-year program we have at the moment which we are all signed up to, which was recently realigned because of the 24 towns on boil water alerts. But that is what we all support and is what we seek funding for. It is important to demonstrate to both state and federal governments that we as the owners' representatives, representing the consumers, are supportive of the program, the management and of the board.

**Mr DOWNIE** - It is important that it is not a good thing to have a subsidy to TasWater. It has to be project-specific for the capital improvement of those assets, otherwise you create an inefficient organisation.

**Ms FORREST** - I am interested in who approves the corporate plan. Are you able to provide a copy of a corporate plan with a three-year forward plan? I would imagine it would be about three years or more, maybe longer in the case of long-term assets like TasWater, of building and looking after. Can you provide some detail around that?

**Mr DOWNIE** - We pass off on this prices and services plan. The actual infrastructure plan and the rollout of infrastructure is what the board decide. They categorise, plan, design and then implement.

**Ms FORREST** - Do the owners tick off on that?

**Mr DOWNIE** - We do. We can't change it without good reason. The board is the board and they are autonomous. Their CEO brings the program to the reps meeting and question the CEO and the chairman on the program.

**Ms FORREST** - What period is the corporate plan over?

**Mr DOWNIE** - It is a 10-year plan. The next two years are important because of the upgrading of the boil water alerts.

**Ms FORREST** - Are you able to provide the committee with a copy of the plan?

**Mr DOWNIE** - I'm happy to.

**Ms FORREST** - I assume you don't have one with you so we will take that on notice.

**Mr DOWNIE** - No, we don't but we can provide the Chair and the committee with it.

**CHAIR** - How often do you meet with the board?

**Mr DOWNIE** - We have two owner reps meetings a year where the board is at that meeting.

**Mr BISDEE** - Most of the board is there and some interstate members. Sometimes they can't make it but most do.



**Ms FORREST** - Do you think that is adequate?

**Mr BISDEE** - It suffices, it's enough. There are also quarterly briefings by the chairman to each region - the south, the north and the north-west.

**Mr ARMSTRONG** - Three owner reps?

**Mr BISDEE** - Twenty-nine.

**Mr ARMSTRONG** - Yes, but your role, are there just the two?

**Mr BISDEE** - Mayor Downie is the chief rep, I am the deputy chief rep because there is the north and the south of the state.

**Mr ARMSTRONG** - There is not one from the north-west?

**Mr BISDEE** - No, there are only two.

**Ms FORREST** - The figures aren't particularly good in terms of managing in the future. You have identified there is a need for other sources of funding rather than the Tasmanian taxpayer. I don't think it should have been a surprise to anyone - didn't we know when we were taken over in the first instance, in three corporations, that the majority of assets were deficient and there were hardly, if any, compliant sewerage systems and a lot of water infrastructure that needed fixing. Some has been done, as you have said. I don't think that should be a surprise to anybody.

The income statement in the annual report talks about accounting for assets, values and impairment. The initial recognition of assets of \$4.8 million is added to the revenue. Asset revaluation deficit of \$6.6 million was an expense and then changed to asset revaluation surplus of \$34.4 million less tax, effect of re-evaluation in the line below. That helped boost the comprehensive income and improve the balance sheet. The later revaluation was mainly a net re-evaluation of land and there is a note related to that on page 72 of the report.

Then you go to page 45 of the annual report where there is an audit opinion that suggests problems with the way infrastructure assets are valued or have been valued - not the methods so much as the results one would expect. We had a meeting with the Auditor-General yesterday and I asked him about this. It is a question for the board as well, not just for you. I am asking you but I will also ask the Chair of the board. When we had this discussion and according to this commentary here, the assets have not been revalued since it was taken over, even though there has been a commitment and a comment in last year's audit report that this should happen. The Auditor-General is concerned if it does not happen soon that the value could be significantly different. He was not suggesting it would be less than what is on the books at the moment; he said it could be more.

**Mr BISDEE** - It could be less, too.

**Ms FORREST** - That was my concern. I note in the last point on page 45, under audit opinion the board of TasWater intends to engage an independent expert to conduct a comprehensive review of the valuation methodology prior to the finalisation of the 2017 financial report. That is not a commitment to undertake a revaluation. That is a commitment to look at it. It is like him doing a report to consider a report. I am quite concerned about that. We have got assets, but who knows what the value is. They have not revalued according to the recommendations. What are your thoughts on that, as the owner reps?

**Mr DOWNIE** - I have asked the chairman of the board about this issue of revaluation. It is essentially a matter, I believe, for the board. They are probably better to answer the specifics.

**Ms FORREST** - This is in your opinion, because I will pursue it with the board.

**Mr DOWNIE** - The answer I have been given is that they had an agreement with the previous auditor on how the assets were to be valued. They want some consistency in how those assets are valued. The present auditor wants to change the way those assets are valued, so that then creates uncertainty. The opinion of TasWater is that the assets should be valued as they were last year.

**Ms FORREST** - But they were not revalued last year anyway.

**Mr DOWNIE** - Well, how they are accounted for in the papers. They have had a difference of opinion on the auditor saying in the present reports that he does not agree with the way they are valued. TasWater is saying that, because of consistency, we need to have them. They do not agree with the Auditor-General and they have agreed to disagree.

**CHAIR** - It is something we will have to explore when they come in.

**Ms FORREST** - I was just interested in what your opinion was and what contact you might have had around it.

**Mr DOWNIE** - It does have consequences for profits reported for TasWater.

**Mr BISDEE** - It does reflect on that. While the value of the assets is important from a booking point of view, and to ensure the assets of TasWater are fairly stable, the main issue is the financial sustainability of the organisation and the profit and loss so they can cover their interest all the time. Obviously the valuation of the assets reflects on that. I agree with Mayor Downie that this needs to be undertaken because who knows whether it goes up or down. I hope it would go up because of the spend and upgrades that have taken place so far.

**Ms FORREST** - Are you concerned that the assets are not worth their current book value?

**Mr BISDEE** - I cannot value a dam or a sewerage works. It is technically impossible for me to answer that.

**Ms FORREST** - I will chase that up with the board.

**Mrs HISCUTT** - We had a talk yesterday to LGAT. Of this \$20 million for a period of seven years that they are going to withhold in dividends to upgrade these things here, it was said the councils supported the intent to do this. Do I understand that is correct?

**Mr DOWNIE** - Reluctantly.

**Mrs HISCUTT** - If you are the owner representatives, and they are your assets, is \$20 million enough each year to take to get it upgraded, considering you own the asset?

**Mr DOWNIE** - It is a complex issue. There are 29 councils that own it. The finances of all councils are different. Some councils subsidise water and sewerage.

**Mrs HISCUTT** - And some councils were well set before this all happened all those years ago.

**Mr DOWNIE** - The only way they could bring it all together, when the four bodies were set up, was to pay priority dividends to the councils, and the dividends have evolved from that. You have to remember local government owns TasWater. It should be entitled to some return on assets. It is a very small return that has been

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**Mrs HISCUTT** - It is to upgrade your assets. I am trying to get why into my head. If you can secure federal funding that is well and good, but when push comes to shove, it is your asset. It is TasWater's job to

bring it all up to date, bearing in mind what you said about the ever-increasing rules and regulations. You do not think they are going to be gold plating or anything like that? It is bringing up 24 boiled water alerts to off boiled water alerts?

**Mr DOWNIE** - The boiled water alerts are in the plan to be done over the next two years. They have agreed to take half our dividends away, so they have dropped the dividends from \$20 million to \$10 million, but we are still getting the tax equivalents. When that \$10 million has been taken away from local government - we have been given notice that in two years' time that money is taken away.

**Ms FORREST** - It would be profitable to get tax equivalents.

**Mr BISDEE** - We would still get tax equivalent.

**Ms FORREST** - Regardless of whether they are profitable?

**Mr DOWNIE** - The profitability will determine the tax equivalent.

**Ms FORREST** - That is correct. If there is no profit, there is no tax -

**Mr BISDEE** - That is the risk that anyone takes in ownership of a corporation or any business. Local government has now got the stick taken to it to become more efficient. We have had \$10 million taken away from us.

**Mrs HISCUTT** - It is not only local government that has that stick poked at them.

**Mr DOWNIE** - This is what is happening. Councils all around Tasmania - some are more aggressively tackling this issue than others, at wiping costs off their operations to help fund this loss of income from -

**Mrs HISCUTT** - To help fund your assets?

**Mr DOWNIE** - To help fund our assets and also provide what our communities wish to have. They might want the refurbishment of assets or park developments or whatever it is, or stop an upward movement in rates. If we have had \$10 million taken away from councils, that is going to put an upward pressure on rates. Whether people in Tasmania are paying higher water and sewerage rates or council rates, it is the same thing. It is a cost of living pressure on people. The pressure is increasing for people to pay more.

**Mrs HISCUTT** - I keep thinking back to where we came from with Burnie. They had their water sewerage beautiful.

**Mr DOWNIE** - Same with the northern midlands. TasWater has not spent any -

**Mrs HISCUTT** - The council had that done. I know it is a cost efficiency and -

**Mr BISDEE** - This is the inequity of it. Burnie is subsidising everyone else. Launceston did nothing and now it's a huge problem. When they have a big rainfall -

**Mrs HISCUTT** - We know what happens.

**Mr BISDEE** - Sewage goes into the Tamar. That has to stop, but to stop it is \$200 million or \$300 million.

**Mr DOWNIE** - The bigger picture is these assets are stuffed. They have to be fixed. One of the ways of fixing them is to bring all the water accounts in Tasmania into one. There were savings identified by doing that.

**Mrs HISCUTT** - You would nearly have to agree that TasWater, by giving fewer dividends, is trying to address all that?

**Mr DOWNIE** - Yes. This came about because of pressure from Treasury to reduce - because there has been a lot of talk about dividends going to councils, and also there has been criticism of TasWater of having a lazy balance sheet. The lever was pulled to increase borrowings - interest rates are lower - but that has come at a cost to local government. You can nearly work out the cost of borrowing an extra \$500 million is the \$10 million that we are foregoing in dividends. It is all about trying to fix the problems in Tasmania.

**Mr BISDEE** - It is fair to say that Mayor Downie and I are determined that - it is our vision - TasWater can get back to CPI over time but you have to get over this hump first. If we had state or federal funding we could get over the hump quicker and get back down to CPI.

**Mrs HISCUTT** - Other than funding, do you apply for grants such as Regional Revival?

**Mr DOWNIE** - No, because that is local government. This is a different business.

**Mr FARRELL** - Mayor Downie, through the funding issue, has there been any coordinated approach with TasWater, the state Government and local councils to seek federal funding - I am thinking through the Coordinator-General's Office or Infrastructure Tasmania, as it is a fairly major infrastructure issue?

**Mr DOWNIE** - TasWater went on its own to lobby for external funding. I think they have a slightly different view. We have to work a lot closer with councils and that relationship is being fostered. You have to go back to when the four bodies were formed. The state government controlled the four bodies and were not answerable at all to local government. Since TasWater has been brought into existence they are more accountable under the statutes, and more answerable to us. They have to pass by their Price and Services Plan. They also recognise in order to achieve this funding they need the lobby force of local councils working with state government to obtain money from Canberra.

**Mr FARRELL** - Has there been any indication to local council owner members the Government would make a move to take over TasWater? Has that come through any meetings you've had with government?

**Mr DOWNIE** - It has been mentioned as an option but they're not interested in it.

**Mr BISDEE** - We were concerned it was on the agenda. If we lost TasWater, I don't think that would be a great service to the population of Tasmania considering the experience of Hydro and Transend.

**Ms FORREST** - Why do you say that is a bad thing? Why do you say Hydro and Transend?

**Mr BISDEE** - Aurora has put up the price of electricity over 10 years by 100 per cent.

**Ms FORREST** - If you listened to the minister earlier, our energy prices are 2 per cent lower than they were when they came to Government.

**Mr DOWNIE** - But they are still increasing by 3.68 per cent a year. CPI is at less than 2 per cent, so where is the growth in Tasmania to justify it?

**Mr MULDER** - It depends on which CPI you're looking at. On councils there is a different CPI, which relates to local government services and that basket of goodies. Which CPI are you talking about here, the price of eggs in the supermarket or the price of construction work?

**Mr FARRELL** - Following on from that, what would local government's view be of TasWater being made a GBE?

**Mr DOWNIE** - It is not at all the preferred option of local government. Local government is perceived to be the closest to the people. We are more accountable to the people and we believe we can make TasWater more accountable to the people it is serving.

**Ms FORREST** - How are you doing that?

**Mr DOWNIE** - You have already seen, since TasWater has come into existence the price increases were at 12 per cent and then 10 per cent. They have now dropped down to 5.5 per cent. The four bodies accumulated into one. We agreed to that, with \$5 million savings in the first year. TasWater has identified another \$5 million it can save. Now, it has come up with another \$17 million it can save, so it is more than \$25 million it is going to take out of its operation.

**Ms FORREST** - Which they would do if they were a state-owned company.

**Mr DOWNIE** - Not necessarily. It depends on pressure put on them and the ability to make the GBE, if they were to be a GBE, deliver. Once again, look at the energy business in the state. It is not accountable to anyone.

**Ms FORREST** - It is. It's accountable to the parliament. The GBEs, TasNetworks and Hydro that you refer to, until recently Hydro had its challenge with the Basslink failure, and TasNetworks and Aurora continue to pay the biggest dividends of any to the state, which is then put back into services and other things for the state. They are not bad citizens here. If it wasn't for the energy entities, the state would be in a really bad position.

**Mr BISDEE** - Isn't it a tax in disguise that they are paying a dividend to the parliament, to the Government, through the payment of a service to the consumer? Is that fair and reasonable that someone is paying taxation by default through the cost of energy?

**Mrs HISCUTT** - The use of the service, I would have said.

**CHAIR** - I suppose we should focus on what your role here is as owner representatives. If I go back a little bit, there is a community perception, and you might tell me if this is right or wrong, that sometimes a lot of the infrastructure upgrades have been rather gold-plated and some have not been necessary. There have been some small communities that haven't wanted them done at all. Also, there are efficiencies where the old local council could ring up and a guy would come up and fix a water meter. Once you get into that expanded bureaucracy, there are issues. Can you comment on that at all?

**Mr DOWNIE** - Sorry, on?

**CHAIR** - Let us go back to the actual infrastructure that has been provided across the state. Has any of that been over-engineered?

**Mr DOWNIE** - We've heard of those criticisms and could give you examples ourselves of that. We've raised this as owners with TasWater and they have instigated a report. There were a number of projects that were cited as being gold-plated. They instigated a report to independently look at those projects. They reported back to us at our last owner rep meeting that essentially the report said that they weren't gold-plated and they were done to an acceptable standard. You have to bear in mind, as Tony has already said, the standards are rising and they have to adhere to the statutory requirements that are placed on them. It is also something that we as owners are working with more into the future on because it is important that they are doing things in a most cost-effective way.

You will always find people who want better quality water and there are also people who say, 'I can do with a tank and the water that falls on the roof is what I require and that's what I want'. How do you please everyone in a community? It is very difficult.

**Mr MULDER** - On that line of reasoning that is the point, though, isn't it. To get the public infrastructure, I might not want a four-lane highway within safe distance to me because I might not ever use it, I might just use my local street to go to things. Bad luck, I fuel up at the petrol bowser and I pay the fuel excise that ultimately funds it. That is the nature of public infrastructure, particularly monopolistic infrastructure, which is what you guys are in.

My question is: it seems to me that there should be a fairly simple model here which says that we have decided as a community that people in these communities should not be boiling their water, whether someone around the corner wants to do that or not, bad luck, all in and that is the nature of the beast. As a result of that, the cost of that should be spread across the users, not running into this Treasury or to the federal Treasury, because I can back you in it is the same taxpayers who are putting the money in there that you seek to use, so it does not matter which level of government you launder it through, it is tax.

It just seems to me, in my naivety obviously, that you should be in a position where you say hang on a minute these are the assets that we have, these are the assets that we need to upgrade, this is the cost of delivering the quality of service that the people of Tasmania have decided they need to meet. Now spread that cost across the users. If you need to do stuff, go and do it. I am all for you. There should not be price gouging. This stuff should be delivered at the cost of delivery, and the cost of delivery to provide water should not involve dividends to councils or anything else like that. It should be a direct charge on the user who pays for that service, including all the infrastructure and upgrades and the money you have to borrow to do that. It seems we have ourselves in a nice mess in trying to find out whose pocket we can pick to deliver what we want.

**Mr BISDEE** - Yes.

**Mr MULDER** - I did not suggest there was a question, but it is a line of argument and I did say to counter that line of argument, and I gave you another one. I note silence across the room.

**Mr DOWNIE** - It is a valid point. Unfortunately or fortunately it is like the headworks charges that TasWater decided were a very small amount of money in terms of total revenue, so we will not argue on the headwaters charge and will get on with the bigger picture. It is the same thing with the boiled water alerts. We have 22 towns left that have boiled water alerts. It is a bad image for the state of Tasmania, but we will fix that problem and kill the political issue because politics in this state is everywhere. People criticise Tasmania in that we are over-governed, so there are pressures that can be put on throughout our state. The way to get rid of that boiled water alert is to just do the job and then get on with the bigger picture.

**Mr MULDER** - I was simply coming to Ruth's point. If you have 29 councils that are reluctant to increase their rates, then let us not just do it. When this thing went through Clarence Council, it was another council that was delivering a top quality service on a cost-recovery basis. That was about a 4.3 per cent return on assets. It was going great and working quite nicely. There was expansion in the pipeline; money was being borrowed for that. When it came through I could see this was on. Everyone saw sparkles in their eyes. We are going to make a dividend out of this, going to make some money out of our assets at last. To me this is wrong. I even put a motion before the council, which actually got up, to suggest that Clarence thought the better model was a state-owned corporation or similar where we took this thing off local government and ran it as a GBE. Maybe once we got the infrastructure up to scratch across the state and were on a level playing field, you might then think about ongoing management return to the local community. We have a major hurdle to get over, running around hoping some money falls out of the tree in Canberra.

**Mr GAFFNEY** - You have to be a bit careful because in the beginning every council was virtually different, and different councils were charging different rates. We have gone for a statewide group. That is why we have to lift the rates, the water costs, in some places to a plateau. Kentish Council has been paying more than anybody else for their water for eons. We had cities that were not even water-metered. They did not know how much water they were using.

What worries me - going back to Craig's point about the state government - is that most of the hard work with this company has been done. They get less than 2 per cent return on their investment - 1.2 per cent or something. No businessperson would go there. There have been issues. I would like to understand where the Property Council sticks their nose in all the time. They have done it for a long time. We need to be careful once local government has got it to a certain area. There is no gold-plated stuff because the environmental standards are rising all the time. TasWater, at their presentations, say they have chosen this; it is more expensive but it is going to last further into the future. Some of the questions being asked here may need to be directed at the board and at TasWater, because they have researched this stuff.

**CHAIR** - It was just a perception I was asking about, and it is out there; just the owners' reps and your view on some of that stuff.

**Ms FORREST** - Going further down that path, hypothetically if the government of the day decided to make TasWater a GBE, clearly there would need to be transitional arrangements and some sort of financial support for councils who have initially provided their assets, even though some of them were fairly worthless in the big scheme of things. Some of them have been named by someone over the table. Do you think it should be modelled and looked at, how it could happen and what financial transitional support would be required to facilitate that? We should put everything on the table when we have major challenges such this. If you do not receive any money from the federal government, TasWater is starting to look like a couple of other GBEs I could mention. We have to put everything on the table and look at all the options. Do you think it should be looked at and do you have any ideas about how it could look?

**Mr DOWNIE** - We can only present local government's view and that is, TasWater is best owned by local government. If that decision is made, Treasury will make it. We can lobby and influence.

**Ms FORREST** - If that policy decision were put at the next election, what would you, as the owners representative group and speaking on behalf of councils, that are the owners at the moment, say would be required in terms of transitional support?

**Mr DOWNIE** - There would have to be support because there would be loss of income to the local government sector.

**Mr BISDEE** - They would have to purchase the asset. They can take it over.

**Mr DOWNIE** - Local government is dead against it. It has been discussed and their position is -

**Ms FORREST** - If it is forced on you, you do not have much choice, whether you are dead against it or not.

**Mr DOWNIE** - That is right.

**Mr MULDER** - This is the same local government very keen on gaining dividends but not keen on investing the money.

**Mr DOWNIE** - Some councils handed their assets over in very good order. You were talking about Clarence and Clarence is a very well run council.

**Mr MULDER** - You did not gain a special dividend as a result, either.

**Mr DOWNIE** - No, and it was the same with our council. The Northern Midlands Council handed over the assets in a very good. Nearly every sewerage lagoon was not flowing into the river. They all have sewerage re-use systems.

**Mr MULDER** - Other councils that have price gouging received special dividends to encourage them.

**Mr DOWNIE** - That was what we were given. That is how it was set up.

**Ms FORREST** - You could be given another proverbial sandwich, not to mention sewerage system, in the future. That is the thing, you cannot put your head in the sand.

**Mr GAFFNEY** - Through the Northern Midlands, what has been the cost of projects since you have been taken over by the water corporation? A lot of money has been spent in the Northern Midlands on water and sewage systems not in place when it was run by council.

**Mr DOWNIE** - No, there was treatment plant designed at Campbell Town and the tenders only had to be accepted by the new water body. They chose not to accept the design of that project and they redesigned and then built. The only other scheme that has been done in the Northern Midlands is a pipeline in the process of being constructed from Fingal to Avoca.

**Mr GAFFNEY** - What about Ross and Campbell Town?

**Mr DOWNIE** - The pipeline was put in by the Northern Midlands Council. Our aim was to put in the treatment plant at Campbell town. That was designed by Hunter Water, but Ben Lomond Water did not accept the design specifications, threw the design out, redesigned and there was a different costing. The plan was in place to do that work.

**Mr MULDER** - The Lauderdale sewerage scheme comes to mind.

**Mr DOWNIE** - The point is, that infrastructure was built under local government with federal help. It was recognised the funding source was the federal government. When water reform was implemented it was targeted there would be money flowing from the federal government. The money flowed into Tasmania but went into other infrastructure development to the detriment of water and sewerage. The issue is the cost to the end user and that is what we are trying to focus on. It is trying to make this place an affordable place to live. At the moment people are under pressure for cost-of-living increases from the energy sector, from water and sewerage, and there is a silent discontent in the community. The same discontent happened in America. The same discontent happened in Brexit.

I remember talking to a stockbroker on the day they were counting votes in America. What the hell is going on, everyone thought the sky was falling in, Trump was getting in front. When they analysed, all of a sudden they saw what he was on about. It is not all bad.

**Mr MULDER** - I can understand your connections with the sewerage works in Tasmania and Donald Trump.

*Laughter.*

**Mr DOWNIE** - I am not saying I am for or against him.

**Mr MULDER** - If you are so concerned about the cost to the end user, why did you go into Lauderdale where Clarence Council had all the stuff ready to roll? They were going to sewer Lauderdale, they put a rising main in to take it from Lauderdale up to the Rokeby plant and then to an even better idea, which no one seems to be looking at much these days, recycled re-used water -

**Mr DOWNIE** - That is a question for TasWater, not us, with respect.

**Mr MULDER** - As a board, they would sit there and come up with this absolutely gold-plated pressurised system that cost about five times as much and that cost goes right back to the little boy at the bottom. The board



needs to take some questions about 'why do we have to have?' as that is a classic piece of gold plating infrastructure.

**CHAIR** - They are operational questions and you are quite right to point out. We will ask the chairman and co who are already out there. It is a matter of whether you want to ask any more questions to the good gentlemen here. They have put a very good case and we know where they sit, pretty well.

**Mr FARRELL** - There has been a bit of talk about moving a sewerage plant that is probably in reasonable condition - certainly not a bad asset - from Macquarie Point. I wonder what the owners representative group's thoughts are.

**Mr BISDEE** - It is not our problem. It is working perfectly. It still has 20 to 40 years' life left. If someone wants to move it, there you go, where is the cheque?

**Mr DOWNIE** - It is another case of a problem being turned into an asset if everyone works together. The same with water and sewerage, if everyone can work together, this problem is easily solved.

I believe TasWater is well on track to solving a lot of these water and sewerage issues in Tasmania. It has a plan, it is going through implementation of that plan. If we can put pressure on them to drop their prices to CPI, there will have to be more projects taken out of their plan, but it will all be done in a length of time.

**CHAIR** - That is the issue, isn't it, Chair.

**Mr BISDEE** - That is the challenge.

**CHAIR** - Yes, that is the challenge. You covered that challenge in the first couple of statements on whether that extra additional funding was available for the next term before us or do you slow the capital expenditure program down? It is a matter of where do you go? How long is a bit of string? Somebody has to make that decision.

**Mr DOWNIE** - It is a good story what TasWater is doing. Before there were all these problems and there wasn't a solution. There is a solution and one of the biggest problems in Tasmania is the Tamar Valley. TasWater has a plan - it just needs backing and that river can be solved.

**Ms FORREST** - But there is no guarantee of funding, that is the thing. Even in this report it says, page 9 -

It is understood that both state and federal governments would like to help.

Seriously, I cannot believe that is in this report, the way it is written, but to date they have not been able to secure a funding commitment. I cannot believe that would occur in a report, but let us pressure him when he gets here.

**Mr DOWNIE** - Our council was involved in development of irrigation water in this state. There was a Long Marsh Dam project and at the same time we were in competition with the Meander Dam. The people of the Meander were trying to get that dam up, we were trying to get the Long Marsh Dam up. We lobbied for years on that project. Thank God we did start something because now water development has gone right through Tasmania with federal funding - funds from the federal government to promote irrigation development. This state is now set up to really grow. In fact it had a real hiccup because it lost the forest industry, which was destroyed. The gross domestic product that was lost to the state through the decline of the forest industry has been replaced by the growth and agriculture through that infrastructure spend. It is a good story.

**Mr MULDER** - Not for the first time was the Long Marsh Dam defeated because the users would not pay. If you can recall the original dam -

**Mr DOWNIE** - Yes, I do, but in that Campbell Town/Ross area over 100 000 megalitres of water has been developed and it has been fully funded by the people of the area.

**Mr MULDER** - I was making the observation that when the government said to the landholders 'pay', they refused, so he pulled the labour out. In fact it is a great tourist asset there that you should be looking at. Surely you have been there.

**Mr DOWNIE** - Many times.

**Mr MULDER** - The sluice gates are still there, the stone chimneys for the officers' quarters are still there. It would be a sensational spot.

**Mr DOWNIE** - The water is flowing into that area now.

**CHAIR** - To the two owners representatives, thank you, that has been very useful and we appreciate you both coming along. That gives us some more insight into what we are doing with the councils.

**The committee suspended from 2.55 p.m. to 3.07 p.m.**

**CHAIR** - Thank you very much. Miles, if you could make the introduction.

**Mr HAMPTON** - Dean Page is the CFO of TasWater.

**CHAIR** - Thank you very much, gentlemen, for coming along. Miles, if you would like to make an opening statement as Chairman and then we will open it up for questions.

**Mr HAMPTON** - I am happy to take questions if I raise something that you would like to ask a question on at that point in time. It might be a more efficient use of your time.

Good afternoon, everyone. It is two years since I was in this room representing TasWater. I would like to make a number of remarks about what has happened in that two-year period.

In the last 24 months we have set up a 24-hour-a-day, seven-day-a-week Network Operations Centre in Devonport. The primary objective is improving our customer responsiveness and operational efficiency. I encourage you if you happen to be on the coast, to try to get an opportunity to see our Network Operations Centre because it is quite sophisticated, but it needs to be, given how we are trying to manage our infrastructure using electronics as much as we possibly can.

We have invested \$231 million over the past 24 months in vital projects aimed at improving public health and environmental outcomes for the state. We've built four new water treatment plants and removed four boil water alerts. And we have developed a long-term plan looking at 10- and 20-year horizons and ensured it is supported by a credible funding plan that I will speak about further in my opening remarks.

What about the state of play? We currently have 23 townships on boil water or do not consume notifications. Further, as evidenced by the temporary boil water alerts last summer at Wynyard, Strahan and Colebrook. A significant number of our water systems are not fail-safe, with 36 per cent of them being disinfection only or completely untreated. We have 11 dams that are above the level of tolerability as defined by ANCOLD dam safety mapping.

In our sewage systems the volume of effluent that was fully compliant with licensed discharge limits last year was 44 per cent. Our rate of sewer mains breaks and chokes is 81 per cent above the medium for similar

size utilities in Australia. Many of our critical sewage pump stations are undersized and when they overflow they often discharge raw sewage onto beaches, urban streets, recreational sites, schools and shellfish leases.

Since 2009, when the reform first occurred, \$704 million has been invested in capital upgrades, so why does the state of our infrastructure remain so poor and why are so many of our key metrics not improving or in some cases going backwards? The simple fact is much of our infrastructure has been deteriorating faster than we have been fixing it. It was in this context that, when it became apparent that neither the state nor the federal government were of a mind to provide assistance to TasWater, the board of TasWater came to the view that we simply could not delay bringing forward the capital program. We have assessed that we need to spend approximately \$1.55 billion over the next 10 years to bring our infrastructure to an appropriate level.

To help fund this program, whilst ensuring the company is on a sustainable financial footing, we will be proposing to the Economic Regulator that they endorse tariff increases of approximately 5 per cent for PSP3 and 4 per cent for PSP4. We have asked our management team to target a further \$15 million in cost savings beyond the \$10 million in annual cost savings we have already secured. Those two initiatives are not sufficient and the board came to the decision we had to reduce aggregate distributions to our council owners of \$30 million per annum, indexed to \$20 million frozen, for seven years commencing at the end of the current PSP period. Just as the legislation that circumscribes how we have adjusted prices require there to be no shocks, we felt obliged to honour the current price and services plan and the commitment to give our owners \$30 million a year. In a sense our owners received 23 months notice that their distributions were going to be reduced. The decision was not taken lightly but fundamentally it was about an assessment of the risks of doing nothing, of not expanding the capital program.

I will now turn to more detail around the capital program. In the last financial year we had 644 capital projects under management and completed 260 of those. We currently have 40 capital projects under way with a value greater than \$2.5 million each, some of them materially greater. For example, \$51 million to upgrade the Blackmans Bay sewerage treatment plant and shut down three underperforming sewerage treatment plants in the Channel. This project is essential if the Kingborough municipality is to continue to grow and provide a range of environmental benefits.

There is \$18.5 million to upgrade water storages at Tolosa Street in Glenorchy to improve the safety and security of Hobart's drinking water; \$15.8 million on King Island to improve water quality at Grassy and Currie; \$14.5 million in the north-east to improve water quality to Ringarooma, Branhholm, Derby and Winnaleah. In the process we will lift four boil-water alerts. There is \$12.3 million to improve the Ti Tree Bend wastewater treatment plant in Launceston. This is the largest sewerage treatment plant in Tasmania. With its close proximity to the Tamar River and Launceston city, improvement works such as these are critical to achieving TasWater's sewage treatment responsibilities.

There is \$7.3 million for upgrading the Mikany Dam on the north-west coast to ensure we can reliably supply domestic water to the townships of Smithton, Stanley and Irish Town. I could go on. It is endless.

In the capital program we have recently participated in two benchmarking exercises that are important and you would be interested in. The first was a benchmarking study commissioned by Water Services Association of Australia. The study compared 18 Australian, and one New Zealand participant, representing water and waste water services to around 79 per cent of the population served in Australia and 30 per cent in New Zealand. In one sense what we discovered was quite extraordinary. While TasWater services only 2 per cent to 3 per cent of the population served by those authorities, and there are 19 of them, it is responsible for 38 per cent of the drinking water systems, 37 per cent of the sewerage systems and 18 per cent of the dams. Therefore 2 per cent to 3 per cent of the population has to, in effect, fund the looking after, ongoing maintenance, upgrading and compliance of a totally disproportionate number of water treatment plants, waste water treatment plants and dams. It is reflective of our geography, probably reflective in part of the municipal boundaries going back over time, but that is the reality.

We also learned there is a direct relationship between the volume of water produced and the volume of sewage treated and the cost to do so. It probably would not surprise you but it is a direct relationship. The smaller the plant size, and we have many small plants, the more expensive the system will be to operate. For this reason we must find ways to rationalise plants while we are upgrading existing assets, so wherever we can we look at the possibilities. If we have two plants, can we run with one and pipe? Anything we can do to reduce the number of treatment plants, water and wastewater will be to long-run advantage of the Tasmanian community.

The second benchmarking study we participated in was engaging an independent third party to assess a number of completed projects. This was supervised directly by the board chair. We simply asked two questions: did we over-specify what we were requiring, and did we get value for money. They are two distinct questions. This study has been reported to our owners. While the independent review identified opportunities for improvement, the overall conclusion was that on balance the projects were appropriately specified and represented value for money for the Tasmanian community. This was the first time we had undertaken it. We picked two in the south and one on the north-west coast, and we have committed to do this every three years.

We will pick some completed projects and get a third-party - who is not doing other work for us - to review them in terms of asking if we over-specified. For example, in the report it was suggested that in one of the facilities we may have gone a little further than others might have done in terms of the electrical system, but that was a matter of judgment at the time and was not material to the overall cost. We are trying to build infrastructure, and build redundancy into our infrastructure, so that it will not fail. It needs to be understood in terms of our capital program because it is a question raised with me and other members of the board frequently, are we spending our money wisely? Everyone has a view. Every consultant who provides services to us has a view. I am sure some of them would have expressed it to some others at this table. We do not have a difficulty with people having a view. It needs to be understood, however, that the economic regulator effectively approves our capital spending.

They are charged with ensuring each of our capital projects are efficient and our investment is prudent, otherwise they will not let us earn an economic return from the investment in those assets or the excess investment. Moving on to pricing, when the reform first occurred we inherited the pricing regimes of 29 councils.

We established appropriate target tariffs for each category of customer, and over the past seven years, we have been transitioning customers to target tariffs, reducing the charges for customers who are paying above target tariff, and increasing the charges for the many who are paying below target tariff. This process has been complex and challenging for ourselves and for our customers.

It is pleasing to be able to report, however, that by June 2018 the vast majority of our residential customers will be paying at target tariff. Many of our customers are paying considerably more now in real terms than they were paying prior to the reform. Our overall sense is that the community understands the problems we have to tackle, and while they might not like the charges, they mostly acknowledge the health of the communities and the environment is too important. It demands no less.

We have come a long way since the reform first occurred in 2009. We are finally getting a proper understanding of the state of our infrastructure. With that knowledge, we can now move to a plan rather than reactive management. The pricing transition I mentioned has been complex, but it is now largely behind us. We have brought new skills and approaches to the business to ensure we invest wisely and manage our operating costs effectively, in order that we can keep tariff increases as low as possible. There is still much to do, but we know where we are going. We have a financial plan that will enable us to get there. We know how we are going to get there, and we are getting on with it.

**Mr CHAIRMAN** - Thank you, Miles. Given that benchmarking, which was done on a very disproportionate load that you carry compared to other jurisdictions - mainly because of our decentralised geography, local government boundaries and all those sorts of things you mentioned - is that then not a case, as

put to us by the owners representatives, there are two real issues. They were singing the praises of the organisation. However, they had two main issues. One was that without some sort of external funding, you would have to slow down the amount of infrastructure you could construct in order that people would still be able to pay for it, do you know what I mean? If you go ahead at 100 miles an hour, it may become unaffordable. That was the point they were putting to us for some portions on the Tasmanian population.

**Mr HAMPTON** - When the reform first occurred I think it was contemplated 10 years, with 10 per cent increases compounding. In those first two years we set out to be 10 per cent. You may recall the government of the day, about halfway through the first year said, 'No', dare I say it, 'It can only be 5 per cent and we'll give you the difference.'

**Mr CHAIRMAN** - Yes.

**Mr HAMPTON** - I will stop there for a moment. If that had not occurred and our baseline tariffs were another \$15 million higher, we would be much further advanced in our capital program than we are. Back to the point of your question. The original concept was that we were going to have a massive increase in the target tariffs over the period. We have had 5 per cents, we have had 6 per cents, we are coming down to 5 per cents and if the economic regulator agrees, nobody likes that.

From the point of view of the board, what is non-negotiable? The capital program is non-negotiable because the risk to the community is too great both in water and in sewerage. We are not going to slow down the capital program. The only person who can make us slow down the capital program is the Economic Regulator. Given the Economic Regulator takes advice from the health regulator, the EPA and the dam regulator, I suspect it is unlikely they would require us to slow down. They could take the view that we will lower the tariff increases but you will give your owners less. They could effectively force us to do that. In making the decision that we announced in August to our owners, we said and we were quite open, our plan could well be overturned by decisions of the economic regulator. Do we think that likely? No, we don't.

Mike, our view on where our prices for water and sewerage current sit on an Australian average basis, I think we are about average, aren't we?

**Mr BREWSTER** - We are just under average. I think, off the top of my head, \$277[?] is the combined cost of water compared to \$290[?], which is the Australian average. The risk for us is, by virtue of the number of plants we have, that we allow that to take off and that is why we wanted that 10- and 20-year view to make sure it is affordable for the customers and we can actually deliver the outcomes.

**CHAIR** - Given the factor that I pointed out before, when you did the benchmarking and the fact that in Tasmania we are behind the eight ball in that respect, do other water and sewerage authorities get federal funding at times to assist with their capex? I am trying to paint the picture.

**Mr HAMPTON** - My belief is, if the reform hadn't happened and these assets were still owned by councils, there is a fair chance that councils would be getting some assistance under one program or another. How much they would get, I don't know. TasWater is in the place for 18 months, the CEO and I traipsed every corridor of power we could where we thought we might be able to influence some assistance to us and ultimately received a very clear message from the two principal ports of call: the state government's attitudes was, 'We don't have any money', and the federal government's attitude is, 'We don't want to create the precedent of fixing your water and sewerage problems because we will have the same precedents in other parts of Australia'. We were given a very clear, unambiguous message. The assistance for our bread and butter, maintaining our infrastructure, is not going to be there.

**Mr BREWSTER** - The other thing I would add is that the reality is, the majority of the other water businesses in Australia were merged and have raised capital many years ago, so their systems are often in a significantly better state and a rationalisation at some level has already occurred where funding has been

provided. If you did some homework, you would find it has been on the major projects, the national-level projects.

**CHAIR** - Changing tack slightly, on the change in dividends to councils, the member councils were miffed at the time because they were only advised at the same time as the media. Could that have been handled better?

**Mr HAMPTON** - I suspect that whichever way we would have handled it, someone would have found a basis to criticise us. If you look at the history of the determination of dividends, that has been determined by the board and communicated to the owners. Because of the decision of Tasmanian Economic Regulator when we chose to say to our owners we had a problem at the end of the last PSP determination. We went to our owners and we gave them some options, but there was not an option about them taking pain. They had to take pain. If there was anything we might have done differently is avoided making a decision and it was non-negotiable, do we create the pretence of a negotiation when there is actually nowhere to go or do we simply get on with it? We knew it would perhaps undo some of the goodwill we had worked hard to build with our owners, but sometimes boards have to make a decision that they have to make. We were paid to make a really tough decision. If we had entered into negotiation with our 29 owner councils about what level of distribution we were going to give them and then had the trade-off of what element of our capital program were we not going to do we would still be doing it. We liaise with 29 owner reps.

**Ms FORREST** - Would it be easier to have one owner to report to?

**Mr HAMPTON** - To be honest I am very comfortable to say in the time I have been Chair, the owners have never put on us to do a particular capital project. They have been extremely responsible in their dealings with the Board of TasWater. They are entitled to their view to criticise us for transferring some of our pain to them and I respect their right to express their view.

**Ms FORREST** - Some of them are now offering interest free loans to TasWater. The sceptic in me looks at that and think we just want priority treatment. If we are going to do it get it through the backdoor, we're going to offer TasWater an interest-free loan for our little pet project here.

**Mr HAMPTON** - In fact that proposal came from the Chairman of TasWater to those councils. We are talking about Glenora and Bushy Park and the adjacent water system at Gretna that needed to be upgraded.

**Ms FORREST** - Is this in the absence of federal funding? Is that why we are doing that? It is pretty clear that it is not forthcoming at the moment.

**Mr HAMPTON** - No, the Derwent Valley Council had secured some money from the state government to put in reticulated water into the two small townships. It had half a million dollars in its bank. It took a long time to give it to us, but it ultimately gave it to us. Even with that we struggled to make the metrics of those two small towns stack up. We are not obliged to introduce services. In fact, given the state of the rest of our services you may take the view that we should not be introducing services anyway. In coming up with the solution for Gretna it made sense for us to try to come up with a solution for Glenora and Bushy Park, two small townships, not that small, where they did not have quality water. They did not have water from us at all. We went to the two councils and said, 'If you will help us we will bridge the difference.' If Gretna had not been a problem for us that had to be addressed, we would not have gone to them. We put the proposition to them they lend us half a million dollars each, interest free, for a period of time.

**Ms FORREST** - If one of the other 29 councils comes to you and say, 'We have seen what has happened there, we will offer you an interest-free loan to do this project,' which is not on your priority list at the moment. What then? We know you need capital. There is no commitment from state or federal to provide it at this stage.

**Mr HAMPTON** - Remember how I framed my earlier remarks, it was because we had to fix Gretna, it made sense to tackle two small towns adjacent to Gretna. If a council came to us and it was adjacent to where we were already having to do something, we would look at it. We would have to look at it in a way that did not

disadvantage our capital program. By those two councils contributing that amount of money, it has not disadvantaged the balance of our capital program.

**CHAIR** - Just to clarify following on from Ruth's question, the Central Highlands Council - you also have a facility with them. What is that for? Not for the same project? You have Derwent Valley and Central Highlands too.

**Mr HAMPTON** - That is right because Gretna is in Central Highlands and Glenora and Bushy Park are in the Derwent Valley.

**Ms FORREST** - Given they are both -

**Mr FARRELL** - It has worked very well and it was a problem for a number of years.

**Mr HAMPTON** - I am very happy to say it was our proposition to them. They did not come to us and we raised it because we were looking at Gretna and we were aware of the undertakings that council had made to those communities. We were aware because it was ultimately transferred to us, of the \$500 000 that had been accessed from the federal government and sat in the Derwent Valley Council bank account for a lot longer than it should have when it should have been in our bank account. They received the interest for the time it was in their bank account. If a council in another municipality came to us and there was an urgent issue, if we could find balance sheet and peel neutrality out of the exercise and it involved service introduction, we are there to serve the Tasmanian community and we would try to do it.

**Ms FORREST** - Miles, you were saying you know where you are going, you know how, and you have a financial plan. Is this part of a plan? Everywhere I read and when we talk to others associated there is no guarantee of other funds. In your report - I found it an odd way to write it - you said, 'It is understood that both state and federal governments would like to help' - that is an odd turn of phrase for a Chairman's report - 'but to date we have not been able to secure a funding commitment'. So there is no funding we know of - and I will come to some of the financials after others have asked questions - so tell me about this plan. What is the financial plan?

**Mr HAMPTON** - We were already going to spend \$100 million a year, or thereabouts. We have moved that up to in excess of \$150 million a year. With the money we are no longer going to be giving to our council owners, with the increased savings we are targeting, we are going to be in a position to fund an extra \$500 million worth of projects. The only projects that are on our drawing board that have been excluded from our funding requirement is Macquarie Point - which we have consistently said we should not have to pay for because we have no need to move it - and the combined system in Launceston. Taking those two projects out, we are quietly confident we can address, given our balance sheet - the only significant caveat is that the regulator will endorse the tariff increases we have proposed, or are likely to propose.

**Ms FORREST** - Which is a concern for many Tasmanians. I am hearing, and I am sure other members are also, that small business is finding is very tough at the moment with the grey water charges to small business on top of the regular water fees and the extra charges for a 32 mm pipe, for example, when they have to have compulsory firefighting opportunities in small businesses. They are finding it is almost pushing them to the limit, and that is without the proposed changed.

**Mr HAMPTON** - The legislation circumscribes our charges and the Economic Regulator has to approve them. The whole basis of the reform was no cross-subsidisation and user-pays. Our task is to try to keep the cost as low as possible and the Economic Regulator oversights and signs off on almost every pricing decision we put into the public domain.

**Mr BREWSTER** - It is worth nothing when TasWater was formed one of the first things we did was address the cross-subsidisation that was occurring from small business or business to the residential customers. It was in the order of \$20 million and that was addressed off the bat right through the pricing changes. We hit

the headworks charges, so on top of the government we took on responsibility for reducing headworks charges. We reduced the costs in the north-west target tariff in the order of 30 per cent that we proposed for water, and around 15 per cent to 20 per cent for sewerage. We have been very cognisant of the burden for small business and mums and dads but, at the same time, we have to balance the need to fix the infrastructure and ensure public health. Trade waste charges, which is what I assume you are calling grey water, are mandatory - legislated. If we do not allow the continued transfer of trade waste into the sewerage treatment plants we will be spending far more than \$1.55 billion, I assure you. Ultimately then there will be a decision made as to whether residential customers carry that, or to the small business is it user pays? At the moment it is a user pay system. We are trying to work with the trade waste customers and assist them on this transition path, because the alternative is very, very expensive and not guaranteed to be successful.

The other bit is our price and service plan. We are keen to get real feedback from our customers and key stakeholders. We are putting out a document shortly as part of our next price and service plan and we are asking all these questions.

**Ms FORREST** - How do people engage in that process, because there are plenty of people out there who want to?

**Mr BREWSTER** - They can go to our website. We will be putting up information on our website. We have also started surveys and are inviting people as part of interest group feedback. We are looking at a whole range of channels to get feedback. We are asking questions about the balance between fixed and volumetric. We want to take that back to the regulator, but as Miles rightly said we must comply with legislation and we can only propose.

In terms of the \$1.55 billion, leading into discussion through the last year of our annual plan we were working on a 10-year plan. That 10-year plan then went from \$1.8 billion to \$1.55 billion when we realised we were not going to get external funding. We have modelled it out for 20 years to determine what the increases to customers would be, what we need to do, how we work with the regulator. We are working with the regulators. Indeed, I have to catch up with all the regulators next week, going through what a long-term plan might look like, what vision this state has for its water and sewerage infrastructure, and what makes sense so we know what the goals are and have agreed to goals up-front. I argue it is a well-considered plan, albeit a starting point. It is the first time we have had adequate data and have been in a position to really project the revenues, the spend and the real impact on customers. We had over 600 projects and programs identified in it, line by line, which we took to our owners. I suppose it is well considered but a long way to go.

**Mr ARMSTRONG** - Your new plant at Blackmans Bay; that is the pipe that is going to run through the Peter Murrell Reserve. Can you tell me what has happened with that? It was in the media. Have you finalised the plan? Is it going through the Peter Murrell Reserve? Where are you at with it?

**Mr BREWSTER** - Our current plan is to use the fire trail that runs through the Peter Murrell Reserve, not in the national park element but outside it in an existing fire trail. It has existing power infrastructure, existing water and an existing sewer through it. I have walked it so I am not talking about theory. We intend to continue with that. However, there is an approvals and regulatory process we must follow, like everyone else. We will work our way through that and will continue to engage with customers. I assume Robert's question goes to how you make those calls. We are trying balance a whole bunch of things in order to give value to the community.

**Mr ARMSTRONG** - The Government subsidy for headworks finished in March this year?

**Mr BREWSTER** - April.

**Mr ARMSTRONG** - What has happened with that? Has the headworks charge stayed the same now it has gone or has it been increased?



**Mr HAMPTON** - No. The current Government, before it came to power, promised it would. No plan had been put in place to help us. Remember, the state government was giving us \$15 million a year as a result of that subsidy for cutting the tariff from 10 per cent to 5 per cent, and no plan had been put in place for transition. We went to the state Government and formed the view headworks charges, where we had spare capacity, were inappropriate. In different communities across Australia there may be differing views. Where we had spare capacity and remember, under the shareholders letter of expectations, we are charged with trying to facilitate economic development in the state. We came to the view, as a board, headworks charges prima facie were inappropriate where we had spare capacity.

We were happy the state Government gave us \$5 million a year for two years. The cost to us exceeded double that in each of the two years of forgone revenue. We saw a massive uplift in the number of development applications coming through. We have no intention to increase, to revert to the standard headworks charges that applied regardless of whether or not you had spare capacity or not. When we made that decision there were two caveats, where a need was in our development corridor but was outside our time frame, we would do it but the developer would have to pay the financing costs for us doing it earlier.

**Mr BREWSTER** - The other is an isolated development. When someone wants to build private infrastructure well off the grid and that places the community at risk - an example is someone wants to build a major hotel at Tunbridge; there is a fair risk because what happens if they shut down in three years? We have already invested significant money and how does the community recover that money. We treat each one of those on their merits with our starting point being there are certain developments we would call isolated and the developer should fund it. If there is a benefit for the community and we see that, we would look at that and take into account whether we would offer support.

**Mr HAMPTON** - No intention to revert to the blanket charge, with two carve-outs that are reasonable and fair to the community. With the wisdom of hindsight, if we had continued to have headworks charges in the old form we may not have had to make the decision that has impacted our owners. We have the SLE saying to us, economic development is important and we should not impede economic development.

**Mr FARRELL** - In regard to your infrastructure, you mentioned funding you tried to obtain from state and federal government. What role has Infrastructure Tasmania played in that? Do you have a relationship with Infrastructure Tasmania? They were set up for statewide coordination on all forms of infrastructure. I wondered about the relationship with TasWater and Infrastructure Tasmania.

**Mr HAMPTON** - We have had dialogue with infrastructure Tasmania and through them, with Infrastructure Australia. The long and short of it is the funding is not there to help us.

**Mr FARRELL** - It is bigger than water and sewerage. Often we hear how important it is to the tourism industry and all kinds of things. I know you are responsible for the infrastructure as providing a service, but when it gets bigger there is no additional assistance through either of the bodies.

**Mr BREWSTER** - Alan Garcia is the CEO of Infrastructure Tasmania and, I have had carriage of that relationship, he has been very supportive. The reality is he can only do what he can do within government. To be fair to Alan, we made it on the list in Infrastructure Australia but we did not receive the money. I would not want a message out there that they have not been trying to support us, Craig, because they have.

**Mr FARRELL** - Around the Macquarie Point project, relating, because that has been driven through that department to a degree, what is the current status of relocation of the sewage works and TasWater?

**Mr HAMPTON** - Our view from day one was that we should not have to pay for that because it should not queue jump, it is thirty-seventh in our wastewater treatment plants. If we ever wanted to move it we may upgrade it on the site. Our view has been consistent. If somebody wants it moved they are going to have to pay. We had a second position that we put to governments that we can't move in five minutes so someone ought to fund us to do the planning work so that we can move ahead quickly when the funding is available.

Why would we do all the planning work and then write that off if the funding was not going to be available? The Macquarie Point Development Corporation has been funding us doing the determination of what is the solution and the likely cost. We have landed on a new plant on the site of and adjacent to our existing Selfs Point treatment plant, a more sophisticated plant and the present estimate is somewhere between \$130 million and \$145 million to relocate and then make good our old site. That is where we are sitting today.

**Mr FARRELL** - Under the memorandum of understanding that is between TasWater, the state Government and Macquarie Point, who would be responsible for funding the relocation?

**Mr HAMPTON** - Not TasWater!

**Mr BREWSTER** - Craig, I think it is stated clearly in the MOU where the responsibilities lie. We had obligations under the MOU. I believe we met those, we worked well with Macquarie Point Development Corporation. All parties have challenges but the net result is we, and the CEO would hopefully reflect, have been consistent in our position from day one, including on the MOU formation.

**Mr HAMPTON** - There is an element where we might end up paying some money there and Mike touched on it just a moment ago. Where there is an advantage to us we ought to rightly pay for it, taking into account the cost.

If, say, it ended up at \$140 million, and if on any reasoned analysis we ought to pay \$20 million of that because we are getting better infrastructure so we are not going to have to spend money sooner rather than later at Macquarie Point, then we ought to pay for that, taking into account the time value of money. We don't think that is an unreasonable position for our customers, the Economic Regulator or the community at large. If it was \$140 million and \$20 million was fairly assessed as being of direct benefit to us then someone else would have to fund the \$120-odd million.

**Mr BREWSTER** - I think that is right. We have to demonstrate to the Regulator under the legislation is any spend we do is prudent and efficient. If we cannot demonstrate that then we don't get a return for it, full stop, that is it. Exactly as Miles says, we are not trying to be difficult, we are just working our way through and trying to be consistent with the legislation. If we can help the government be successful, we will, but we want to be upfront with them as well about the realities.

**Mr MULDER** - Was there any feasibility done of looking at taking it across to Rosny and then connecting it to the reuse scheme? It is a good link. You have a couple of good reuse schemes which are intelligent things to do with wastewater but we don't seem to hear anything about them or use them. Are there any plans to continue with the water reuse like the dams being planned up the head of the Coal Valley so you can reticulate it rather than pump it up? It goes back to Selfs Point. Was there any consideration given to that?

**Mr BREWSTER** - Yes, there was, Tony. We did look at not just going to Selfs Point. We had to start with where are the options over the river and what are the options. The key issue with taking that sewage over the river's salinity and when we looked at the cost of that - how would you deal with the salinity in the sewage?

The first thing we arrived at from our perspective, was it was not going to be a prudent and efficient spend. We also looked at taking it to two of the other plants on the eastern shore. We engaged with the community through a community engagement process because fundamentally we are obliged, under the act to look at reuse on every one of our sewerage schemes. If it is equal, then we proceed with it. Yes, we -

**Mr MULDER** - I can't quite understand the salinity issues of pumping freshwater, albeit laden with microbes, across in a pipe.

**Mr BREWSTER** - What I am saying is that salt-laden water is not helpful - we have had this discussion with the Coal River Valley. We have tried dealing with them. It is not going to be helpful for them to be -

**Mr MULDER** - Are you talking about the salts in the -

**Mr BREWSTER** - In the sewerage system. In effect, what you are saying is, take the sewage, which is a fair question - we have engaged with the Coal River Valley irrigators on this. Instead of sending it to Selfs Point and then back to Battery Point, the alternative is that we pump it over the river, we put it into one of the existing dams or create a new storage basin, and then we use that for additional recycled water to support irrigation on the other side of the river. On salinity, the sewage is highly saline, so it is not helpful -

**Mr MULDER** - That is by nature, no matter where it comes from?

**Mr BREWSTER** - Yes, but in particular - I'm not going to try to pretend I know the details of every question but we did look at it. We actually took a position to the Coal River irrigators. We talked to them about whether they would want to proceed with it, and we have given them all the data and whether they also wanted to look at a scheme of taking - so we have followed it up.

**Mrs HISCUTT** - I would just like to touch on real-time data. There were 23 or 24 boil water alerts last year and probably there will still be a few until we get all this under control. We have just had Aurora in earlier. They had a wonderful real-time data app and business app under trial. Have you given consideration to this sort of thing? I know with Wynyard that was their water reserves, but no-one knew about it until after a little while. Real-time data would be handy. Have you thought about it? Have you costed anything like that? Have you got anything in the works for that?

**Mr HAMPTON** - Mike has all the details, but the short answer is, no. We have looked at it very seriously and we have no plans. Fundamentally, we do an enormous number of tests, and we don't - we could create alarm in communities unnecessarily because we invariably retest. We are obliged to retest to determine whether it is actually an issue.

**Mrs HISCUTT** - You are saying if you get a bad reading, you test it again and then it might be okay and you move on?

**Mr HAMPTON** - That's exactly right. That's the protocol with the Department of Health and Human Services. Mike, is it about 180 000 tests for the year?

**Mr BREWSTER** - More, it's over 200 000 tests.

**Mr HAMPTON** - Over 200 000 tests a year - it's massive.

**Mr BREWSTER** - The other thing to add is, this was proposed with some vigour, I might add. One of the things we did do is change our website to provide more information. If anyone wants to go on our website and see the results, it is there.

**Mrs HISCUTT** - How often is that updated?

**Mr BREWSTER** - It is updated quarterly to give everyone an idea of where we are at. It is not a matter of anything to hide. It is additional resources that we would have to put in place. It is one of the real benefits of providing 200 000 data points, and there is no such thing as real-time data in that sense. We have to go out and sample it, we have to send it to the lab, we have to test it and we have to go back a second time. We looked at all of those and we are trying to find the right balance with our reporting.

**Mrs HISCUTT** - What is the system now for alerting a community?

**Mr BREWSTER** - At the end of the day, we don't make the decision. The Department of Health and Human Services makes the decision on whether to issue a boil water alert or a do not consume alert. What normally happens, if we detect an *E. coli* strike, then we immediately are obliged to inform the Department of Health and Human Services. They would then make a decision dependent upon a number of *E. coli* and where it is - and most of the time they will ask for a second sample to make sure it is not a sample error.

**Mrs HISCUTT** - You alert them after the first sample, not the second?

**Mr BREWSTER** - Sometimes we have been instructed to proceed. Once I can think of we have been instructed to proceed after only one *E. coli* sample because of the high number of *E. coli*, but generally two. There is also a recent change in the approach taken by the Department of Health and Human Services, which, by the way, we support, which is that we no longer wait for *E. coli* strikes. As Miles said earlier, I think 36 per cent of our drinking water systems - 70 drinking water systems - are disinfection only or untreated. The concern the Department of Health and Human Services have is - when can you no longer guarantee that the drinking water is safe? What now happens is that we are required to put on temporary boil-water alerts when the cloudiness - the turbidity - of the water gets above 5 NTU. It is no longer waiting for an e-coli strike. We must comply upon instruction from DHHS. That is why in recent months you have seen Maydena, Fentonbury, Westerway and National Park all on temporary boil-water alerts.

**Mrs HISCUTT** - How do you disseminate that information?

**Mr BREWSTER** - It depends on the nature of the town, what is happening at the time. The first thing we would normally do is based on learning, particularly from Wynyard, where we didn't do a great job. We have community advertising. We put out a media release. We knock on doors if that is feasible. Sometimes that is not feasible. Often those temporary boil-water alerts follow heavy rains or flooding and we can't get to everyone's house. When we get approval from Tas Fire we issue text alerts, but you have to be careful with that. I understand why they have issues, because you end up spreading it over a wide region, and they don't always like it being used. We also put signs up. It comes down to as many channels as we practically can.

**Mr MULDER** - With some of the spiking in levels it is a bit harder. You are now saying you are comparing e-coli apples to turbidity?

**Mr BREWSTER** - No. Ultimately *E. coli* represents the bacteria that make you sick, or one of the key bacteria, but once you have detected *E. coli* then in effect you could argue the horse has bolted. In most systems we have many barriers to prevent that - the 64 per cent to 65 per cent that are left. In the others we don't. If you have high turbidity, high cloudiness, then DHHS is saying, 'TasWater CEO, can you guarantee there will not be an *E. coli* strike following that flood?'. I cannot. So they say, 'If you can't guarantee it then you should be applying a temporary boil-water alert until you can'.

**Mr MULDER** - In the old days you were only applying boil water alerts when there was *E. coli*, or were you using the same method you are using today? Have the criteria changed?

**Mr BREWSTER** - We have always monitored turbidity, but standards are changing all the time. The thing that has changed is the requirement, in untreated systems or disinfection-only systems, when turbidity gets above 5 NTU, DHHS is saying we will apply -

**Mr MULDER** - So the criteria have changed, and as a consequence you're getting more than you would have prior to that?

**Mr HAMPTON** - Correct, and we're trying to get in front of the game by having an increasing number of barriers.

**Mr MULDER** - All this money has been spent and we've still got all these boil-water alerts. The normal connections people make are that there is a reason for that. It doesn't mean you are wasting your money. It just means the criteria have changed and that explains why we're getting more reports.

**Mr BREWSTER** - And expectations and standards have changed, and we're moving to health-based targets. The systems are not robust.

**Mr MULDER** - I need to understand why we're spending all this money and we're still getting boil-water alerts. The point is because of standards and criteria.

**Mr BREWSTER** - Correct.

**Mr GAFFNEY** - With the new customer service centre in Devonport, there is a business case for why it is there. We're all interested to know why Devonport: what was the business case; is it going to save us money; what is the organisation and what role will it play?

Two years ago there was the Launceston Council issue regarding their dividends. I think that has been solved or there has been a judgment or decision. Could you update on that too?

**Mr BREWSTER** - I will start with the operating unit in Launceston. Dean, I might ask you to talk to the business case. The first thing we identified was the need for a network operations centre. Fundamentally, we had no view of the state. It gives you visibility of everything happening in the state in one location. It enables you to reduce your overtime, it enables you to plan your responses better, and it enables you to give better customer service because you have immediate awareness when an issue occurs and you can prioritise.

The reason we chose the north-west coast - we had to put it somewhere and we had a whole bunch of reasons: we had inadequate accommodation on the north-west coast; we have an obligation to support economic development in the state; we are also trying to balance the employee numbers across the state to match the original regional corporations, and we looked at some of the challenges in employment on the north-west coast. When we added all those things up with the business case, we felt it made a lot of sense to move it and centralise our call centre, which has to be alongside it, into the north-west coast. It was really about economic benefit, it provided a positive business case outcome and far better customer services. They are the three drivers.

**Mr GAFFNEY** - Relocation of staff from across the state to that area, what was the impact?

**Mr BREWSTER** - Not particularly great. We took a measured approach, because we couldn't build the network operation centre and the new accommodation overnight. We went with a transition approach, which sought to see if anyone was interested in moving from the other centres to the north-west. We offered people in the south, for example, new roles if roles existed. We did the same in the north and then progressively, as people left in the call centre over that period - bearing in mind we didn't have a network operations centre when we started - we readvertised those positions in the new location in the north-west and commenced the training program.

**Mr GAFFNEY** - How many staff are we talking about?

**Mr BREWSTER** - In the network operations centre, there are about 10.

**Mr PAGE** - There were 20 call centre operators situated in Launceston and Hobart. Those roles were transitioned up to Devonport as part of the consolidation. On the way through there was only one redundancy. A lot of people took up vacant positions in their existing locations, a couple of people relocated, and a lot of people moved on to other opportunities outside TasWater. We allowed a long lead-time, we engaged our staff early and we are going through a public process to find that new location. We engaged staff early and were able to work with them to transition the business up there.

**Mr GAFFNEY** - And the financial cost or benefit of the move?

**Mr PAGE** - There were two main benefits that came from the site in Devonport. We had three major centres in the north-west - Burnie, an existing shopfront in Devonport, and our Forth water treatment site. While we owned that site, we had a number of demountable structures on the site we were leasing when the Cradle Mountain Water was established in 2009. We were saving those lease payments and consolidating into one site in Devonport. Via the optimisation of the network operations centre we are able to monitor our assets in the field, respond to alarms, and diagnose those alarms before we send a crew out. We are anticipating a reduction in our overtime costs because a lot of those low-level alarms can be dealt with remotely at the network operations centre rather than sending crews out into the field after hours to address it.

**Mr GAFFNEY** - And the remaining staff at Forth?

**Mr PAGE** - All the non-operational staff at Forth have relocated to the site at Devonport and we have a small operational crew running the water treatment plant at Forth.

**Mr GAFFNEY** - Can you give us the Launceston update?

**Ms FORREST** - The dividends and things.

**Mr HAMPTON** - Not so much the dividends because they have been getting the dividends, but they have not been making a payment for the combined system. That was internally and externally assessed. We rendered a bill. They declined to pay. It went to arbitration. The arbitrator took some particular views on some matters and ultimately it is now behind us. There was an element of retrospectivity to the UDA legislation and they have made the payment retrospectively. It is just a pity it took so long.

**Ms FORREST** - With interest?

**Mr HAMPTON** - No. It is behind us and we have moved on. I am on public record we are not getting a commercial return on our assets in that place and in my view we ought to be, but the arbitrator took the view that the UDA legislation meant we could not.

**Ms FORREST** - Taking into your statement of comprehensive income, page 55, I want to go through some of the figures and your cash flow and then look at your asset valuations.

The accounting for your assets, the values and ? is a bit of a dogs breakfast in some regard. The initial recognition of assets of \$4.8 million is added to revenue. Asset revaluation then of \$6.6 million was the expense and then changed to an asset revaluation surplus of \$34.4 million, less the tax revaluation further down on the income statement and this helped boost the comprehensive income and include the balance sheet. The latter revaluation was mainly a net revaluation of land according to your note on page 72, note 9. The audit opinion on page 45 suggests problems with the way infrastructure assets were valued, not that it meant as much as the result.

I had a discussion with the owner representatives earlier about this. Their view was it was more a difference of opinion, the way the current Auditor-General was wanting to value the assets. We had a discussion with the Auditor-General yesterday and he suggested the previous Auditor-General had requested the assets be revalued. We accept other similar corporations of this sort of asset do not do it every year, but it has been coming up five years now since the last valuation. In the Director's report on page 45 there is a discussion about that in terms of an emphasis of matter in the audited opinion relating the carrying of water and sewerage infrastructure assets. In the last comment on that section, the board of TasWater intends to engage an independent expert to conduct a comprehensive review of the valuation methodology prior to finalisation of the

2017 financial report. The Auditor-General wants a valuation, not a review of the methodology, because that is not a valuation. There seems to be differing views on how the assets are valued.

The income statement does not give a lot of comfort and then when you go to the cash flow statement on page 57, the receipt are up but net operating cash is down \$21 million to \$74 million. Capital expenditure spending is up \$30 million to \$128 million and dividends are \$20 million, leaving a cash pool of about \$74 million. You borrowed an extra \$65 million so therefore only ran down the cash by \$9 million. It is a bit of shifting of the deck chairs it appears.

**Mr HAMPTON** - You have raised about 40 different things.

**Ms FORREST** - Yes, I know. We do not have a lot of time left so I am trying to get some understanding here. It is a bad set of numbers. If it continues without funding coming from somewhere.

**Mr HAMPTON** - With the greatest of respect I disagree. It is not a bad set of numbers. We are obliged to present them in the way the accounting standards require us to present them and we have done so. We might not have liked them.

**Ms FORREST** - I am not saying they are badly presented. I am saying they are not good in terms of meeting the future expenditure, unless there is money forthcoming from somewhere.

**Mr HAMPTON** - For example, initial recognition of assets. If we identify assets today, we did not know that we had because of incomplete information beforehand, then we have got to bring it to account somewhere.

**Ms FORREST** - That is what is happening here?

**Mr HAMPTON** - That has happened in relation to one line item here. In relation to another line item, if we have had some of our property or assets revalued and it has declined in value then we have to book that.

**Ms FORREST** - I understand that.

**Mr HAMPTON** - As regards the bigger-picture issue, which is the impairment issue, we have a fundamental disagreement with the current Auditor-General. Let me frame it: we have already written down our assets by \$1 billion to comply with the accounting standards. That has happened in two different phases, \$1 billion worth of writedown. As a result of that, a depreciation charge of about \$25 million has disappeared, if you say an average of 2.5 per cent. Our profitability is being reported to be higher and we are not setting aside enough money to look after the assets.

The year ended 2014-15, we had a conversation with the then-auditor-general and framed our conversation on: if we just do a single-point impairment test, is the carrying value of your assets reflective of your future income streams? It's not someone going out and inspecting the assets, it's simply a desktop calculation of what your future revenues are going to be and does that sustain your carrying value of your assets.

A year and a bit ago we had the conversation with the then-auditor-general and he put it to us that we should operate within a range. If our book value sat inside that range, he would take the view that it was acceptable. In other words, he didn't think the community would be well served by us moving numbers on an arbitrary point basis simply because of a different assumption about interest rates, asset lives or whatever and revenue that we are likely to get from the economic regulator.

The annual impairment test - and we have done this each year, we haven't gone outside and got an independent valuation each year but we have done the impairment testing each year - two years ago would have resulted in a significant adjustment. It is curious because it is not net. If sewage goes in one direction and water goes in the other direction, you report one through the P and L and one through the balance sheet. It is most

confusing and as you are all aware, I am a finance person. I completely disagree with the approach but we are obliged to comply with it. Last year, after much discussion and in a sense, the methodology we landed on was at the suggestion of the then-auditor-general. We applied that same methodology this year, unchanged, exactly the same methodology and our book value was inside the range.

**Ms FORREST** - What is the range?

**Mr HAMPTON** - The range is an upper and lower limit determined by applying an upper and lower key assumption. If you look at revenue growth, if you look at what is likely to happen to interest rates.

**Ms FORREST** - Is that in here somewhere? Keep going, Miles, and we will come back to that.

**Mr HAMPTON** - We applied the same approach and probably two weeks before we were obliged to sign the accounts, the Auditor-General told us that he disagreed. Two weeks before we were obliged at law to sign the accounts, he told us he disagreed and if we didn't change it, he would qualify our accounts, which is a much more substantive matter than a matter of emphasis. We took the view that we had applied a consistent basis of treatment to the previous year that had been endorsed by the previous auditor-general and we saw no reason, because we were not given any evidence other than the current Auditor-General's opinion, that the previous auditor-general got it wrong. He hasn't quite been prepared to come out and say that but that is essentially what he was saying. We took the view, no.

What we have committed to do is get an independent, mainland accounting firm to review the interpretation the previous auditor-general put on the approach we were taking and if we lose, we lose. If we had adopted the approach that the current Auditor-General had wanted this year, we would have taken a significant writedown.

**Ms FORREST** - That is the way it read to me, that would be the likely outcome.

**Mr HAMPTON** - We would have taken a significant writedown. As a result, we would reduce future depreciation charges so we would overstate future profitability. A significant writedown today would mean that we would have negative retained earnings, which then calls into question, do you pay any dividend at all to your 29 shareholders?

**Ms FORREST** - That is a good question.

**Mr HAMPTON** - The reality is, Ruth, what is the replacement value of our assets? Order of magnitude, maybe \$5 billion.

**Ms FORREST** - \$5 billion.

**Mr HAMPTON** - What is it in the book?

**Ms FORREST** - \$1.8 billion, isn't it?

**Mr BREWSTER** - The regulatory value is around 3 and a half. That is what we see a return on. These things are not -

**Ms FORREST** - We will come back to that point in a minute. How are similar infrastructure assets valued, impaired and accounted for in other states?

**Mr HAMPTON** - I do not know about other states. In the year before last, another statutory body in Tasmania had the same issue and took the same approach and worked on a range. What they did this year -

**Ms FORREST** - With biological assets, was that?



**Mr HAMPTON** - Sorry?

**Ms FORREST** - Was that biological assets?

**Mr HAMPTON** - No.

**Ms FORREST** - Another one. Right.

**Mr HAMPTON** - They worked on the same approach. The former auditor-general had a consistent approach he was prepared to allow organisations to follow. I think he was driven by two things, arbitrary - if the interest rate changes, do you write off half a million or, do you write it up, \$500 million, because of an interest rate change or perspective change? Does that really make common sense? More fundamentally, do you want to be reporting a much higher profit, possibly under pressure to give some of it to your owners, and you are not setting enough depreciation for the assets on going forward?

**Ms FORREST** - Interest rates affect all businesses - even with FT, for example, the valuation of their trees, things like that. It is not unique to TasWater. There are different challenges potentially.

**Mr PAGE** - The greater issue for us were the revenues we were going to be able to achieve in future. You might recall from PSP2, the regulator took a very different approach to setting our prices than we proposed. That reduced our revenues through PSP2. Based on those projections, we would have seen lower levels of target tariffs achievable in future Price and Service Plans than the board had previously -

**Ms FORREST** - Then less infrastructure spend, potentially.

**Mr PAGE** - Indeed. That has pressure on our net cash flows, which then flows through to a level of assets that can be supported with those cash flows. The previous auditor-general, without putting words into his mouth, recognised the uncertainty in a number of our future projections. He was able to sit down with us and have a discussion about realistically probable outcomes under a number of different scenarios that led to a range of potential fair values, of which our full values sat within. We applied that same operation in 2016 -

**Mr BREWSTER** - May I come back to one thing, Ruth? I think it needs to be said. You have stated, the inference is, we are struggling to fund our program. That is the inference. It is almost implied there is a disconnect between our own Chief Owners Representative and ourselves. The reality is we have modelled this extensively for the next 10 years. It is not perfect, but we know how to get there. That plan exists.

**Ms FORREST** - That is in your corporate plan?

**Mr BREWSTER** - No, it is not in the corporate plan. It is the 10-year financial model. The first version - we got to the point where we had enough data and enough information to begin. We are taking that to the regulator and working with them to finalise this in an agreed manner. We are not looking at three-year windows. We are looking at the whole 10 years so we do not have these bumps, up and down one minute. We are having our revenues cut, the next minute they are increasing, so what do we do? The state is not going to be successful.

Can I conclude, the other thing I wanted to state is what David, the Chief Owners Representative, has been saying to us, and has probably said to this committee, he is of the view that I think we understand. He understands we have a plan that will enable us, subject to the regulatory outcomes, to deliver that infrastructure. Hopefully we can do better than that. His argument is, could we do better than the 5 per cent and 4 per cent that underpin our plan?

If the federal government and the state government were to contribute additional funds, it would potentially lower the pressure on customers. That is his point. That is why I suppose it might be interpreted as a different view. If the federal government wants to give us more money to reduce customer prices, we would appreciate

it. We could not go on a hope. We had to build a plan we could stand behind and that looked realistic without funding, at this point in time.

**Mr HAMPTON** - We're very comfortable with our plan, that we will take debt from \$400 million to just under \$900 million. Our debt to equity ratio, which I don't personally think is important, will be below 50 per cent at that point. More importantly, our interest coverage, on a reasonable set of assumption, would be two times, which, given the nature of our industry and comparing ourselves with similar organisations across Australia, would be a very acceptable interest coverage. In other words, we will be financially sustainable. We have never had an argument that we couldn't run up a debt level, it is whether we have the capacity to service the debt.

**Ms FORREST** - In a regulated industry they can be up to 60 per cent or 65 per cent anyway. I believe the Auditor-General made that comment as well. The valuation range?

**Mr PAGE** - The parameters that are going to the calculation of that range are on page 73 of our annual report, at the top. There are six unobservable inputs and then a range of our accounts we have modelled.

**Ms FORREST** - Are you willing to provide a copy of the 10-year plan to the committee?

**Mr HAMPTON** - I do not see why not.

**Ms FORREST** - That would be helpful. Thank you.

**CHAIR** - Just a couple of other questions as we are getting close to our finish time. Thanks, Miles. I noticed with TasCorp your borrowing limit was about 475 or thereabouts and you are sitting on about 4 or 3.5 [millions?] - I cannot remember what it is now. Is it within your charter to also go out into the commercial market and borrow if you had to do more, or are you stuck within the confines of having to borrow using TasCorp?

**Mr HAMPTON** - Under the legislation, with the approval of the Treasurer, we could go elsewhere.

**CHAIR** - I suppose if there was a big capex project coming up that could happen?

**Mr HAMPTON** - The reality is we do not have the human resource to spend much more than \$150 million to \$170 million a year. Each year we normally have a conversation with TasCorp about their willingness to grant us a facility, to increase the facility, because they are clearly going to have to increase it beyond the \$475 million to north of \$900 million, but they will do that over a period of time. We have no reason to believe that they would not be prepared to do that because they will be looking at enhanced revenues as we go forward.

From time to time, we would assess whether we could source moneys cheaper elsewhere, particularly with that level of debt you would have an obligation to do so. My suspicion would be that it is unlikely we would get a material saving going elsewhere, but that does not mean we wouldn't look at it. If we could, we would have a conversation with TasCorp in the first place to see if they could do something to reduce their cost to us they pass through or we would then talk to the Treasurer about the opportunity to go elsewhere.

**CHAIR** - At the moment you operate with TasCorp and your dealings with them are on an interest only basis? Is that how you work?

**Mr HAMPTON** - Effectively, yes.

**CHAIR** - And you can renegotiate?

**Mr HAMPTON** - As you would expect, an organisation with the amount of debt we have, we run a profile debt exposure of terms. Clearly, as the capital program winds up, that is growing in quantity quite substantially.

**CHAIR** - I probably missed it in the annual report, you would use technological and everything else consultants. What have you spent on consultants in this last 12 months or so? Do we have a figure and to who?

**Mr PAGE** - It would be around the \$4 million to \$6 million mark. Most of our consultants from an operating cost perspective -

**CHAIR** - Do you want to take it on notice and give us a breakdown of those? Round about \$46 million is what you said.

**Mr PAGE** - No, \$4 million to 6 million. It was generally engineering type firms in developing optionality, feasibility studies for business cases and review of the capital business cases.

**Mr MULDER** - No consultants doing corporate redesigns of the logo?

**Mr BREWSTER** - Happy to talk about the logo but it is a few years ago, Tony. I love the logo. Putting that aside, the reality of the way we run the business is it is always going to be a trade off between the amount of consultants and contractors you carry and the amount you carry internally. If you try and have all your expertise inside the business, you are going to be a very expensive business. We are continually trying to manage that. Our primary role is to determine the feasibility inside the business and get a preliminary design up. We then usually go to market and usually the consultants are hired by the contractors these days to do design consistent with our preliminary design.

That is the most cost effective way right now of delivering the services. If we were to try and do it all in house, it would be horrendously expensive, because a lot of those specialists I could not fit full time in the business, so that is the ongoing trade off. That is why when you see numbers, we run about 100 to 150 contractors typically in the business on top of permanent FTEs, so we have flexibility within the business when projects come on and go off, we can let our costs go.

**Mr MULDER** - We talked to the owners, if you like to use that word, about their need for the financials. The question comes down to how much better would your finances be, if here you are borrowing money all over the place and still pay dividends to people. Wouldn't it be better for the councils to take a dividend holiday for a while and start fixing these assets?

**Mr HAMPTON** - I do recall the owners meeting after we announced the freeze and there was one person from a council who did ask the question, did we consider taking away dividends completely. Remember our distributions to owners are made up of dividends, loan guarantee freeze and tax payments. To give us certainty of the cash going out of the business and to give our owners certainty of cash coming into that, we have tended to speak in terms of distributions. The long and short of it is we have a legal obligation to pay them the loan guarantee fees and the tax equivalents. When you see our 10-year plan, you will see the proportion of the \$20 million that is dividends declines dramatically, because the tax component goes up when more profitable and the loan guarantee fees go up, because we are borrowing a lot more. I think in the last year, Dean, were we below \$5 million in dividends?

**Mr PAGE** - Of the 10-year plan, that is correct.

**Mr HAMPTON** - In the 10-year plan, a very small proportion. The direct answer to your question if we were not paying our owners anything, or we were not paying them any dividend, would we be able to build more stuff? We do not think we need to build more stuff because we think we have got the stuff. Would we be able to build it faster? Yes we would. Alternatively would we be able to pursue a lesser tariff increase? Yes we would, or a combination thereof.

**Mr MULDER** - I know the philosophy of TasWater is not this but I was on the Clarence Council and our basis for doing water and sewerage charges at that stage was cost recovery and we worked out that was about 4.3 per cent of the assets. I am trying to get at the point where if you have your public monopolistic organisation, that has a capacity to charge user fees for the product it delivers and then you have government in the middle of it adding to the cost of that by requiring dividends. At the same time those dividends are coming from their own ratepayers. If we stop the dividends that would be a good start and then once we have got the system up and running properly, we might have a look at should this be a cost recovery exercise, because the users are paying themselves a dividend.

**Mr HAMPTON** - The board is paid to make a balanced judgment as to what we think is affordable, what is fair to the owners, and our being satisfied we can tackle the capital program. Remember what I said earlier that it was all about risk. We can't have 11 dams that are unsafe and have to be monitored all the time.

**Mr MULDER** - That's my point; it should be funded by user charges. If I pay for water then I should be paying for water, not a discount on the rates.

**CHAIR** - Thank you all very much. That was a very educative session.

**The committee adjourned at 4.36 p.m.**