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### THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON TASWATER OWNERSHIP MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON 22 SEPTEMBER 2017

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Mr DOUG CHIPMAN, PRESIDENT, AND Mr DION LESTER, POLICY OFFICER, LOCAL GOVERNMENT ASSOCIATION OF TASMANIA, WERE CALLED MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** (Mrs Armitage) - All evidence taken at this hearing is protected by parliamentary privilege. I need to remind you that any comments made out side the hearing may not be afforded such privilege. A copy of the information for witnesses is available, if you have not read it or you are not aware of the process.

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

The procedure we intend to go along with, if that suits you is, if you can make a short submission and then members will ask you questions.

**Mr CHIPMAN** - Thank you, Chair. Chair and committee members, thank you for the opportunity to address this select committee. Thank you for facilitating our appearance subsequent to my return from overseas.

I am joined today by Local Government Association of Tasmania, acting CEO, Dion Lester and we are speaking on behalf of the local government sector. On this point, it is worth clarifying where each council currently sits in relation to the state Government's proposal.

At the LGAT general meeting in May this year, 24 of Tasmania's 29 councils resolved to reject the state Government's proposal to take over TasWater. Of the five that did not support the motion at that time, Dorset Council does not have a formal position. Launceston and Sorell Councils remain to be convinced about what the best ownership model is. Derwent Valley Council has indicated it supports the state Government takeover, provided it is recompensed for the most recent valuation of the shareholding, amounting for Derwent Valley Council to \$21 million. This leaves Central Highland Council with an equity of 0.51 per cent supporting the state Government proposal.

Our submission provides significant details on the reasons why local government proposes the takeover and there is no need for me to outline them again now. Our central point is that local government opposes the takeover because it is not in the interests of councils or the Tasmanian community.

We believe having a skills-based board determine the water and sewerage infrastructure investment priorities, based on need and performance, is a model that must be maintained. The Australian Water Association, the peak body for water utilities, consultants and contractors, has stated the same. In their opinion, at worst, the progress made by TasWater could put back by 20 years under the state Government's proposal.

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Some who have appeared before you have cited the issue of having 20 separate shareholders as a concern. I find this criticism quite intriguing because TasWater is established under the same corporate law as most successful ASX-listed companies, such as Qantas and BHP, companies that have many thousands of shareholders. The implication here seems to be that TasWater's owners are either incompetent to influence the corporation in its endeavours, or care only about the dividends they receive from TasWater.

In regard to influence, I will table the shareholders' letter of expectations and draw your attention to the numerous formal mechanisms within it to ensure that there is appropriate but arm's length engagement between TasWater and its owners.

Alongside the Government's attack on the record of TasWater, it has been suggested that councils are ripping revenue out of TasWater to the detriment of investment in water and sewerage assets. We refute this claim and point out that the money received by councils from their historical investment in the asset is critical to them being able to invest in other community assets like parks and reserves and other public infrastructure.

At the end of the day, it is the ratepayers currently getting a return from TasWater and it will be the ratepayers who will ultimately have to cover the costs of the lost revenue, whether that be through the loss of local services or increases to rates. Whatever which way, it is the same ratepayers who pay the water and sewerage charges. The fact is that the current governance arrangements for TasWater represent best practice for an organisation delivering services to its customers on behalf of its owners. This parliament should be very proud of the governance model it has enabled for the delivery of water and sewerage services for Tasmania.

Changing the ownership model to a single owner controlled by one or two ministers who can also control the pricing and investment decisions creates a massive conflict of interest and the real risk of poor, inexperienced decisions and/or pork barrelling in the lead up to future state elections. We already have suggestions of potential interference in the management of our water and sewerage assets for political reasons. For example, it seems that under the proposed takeover model the Government could amend the regulatory responsibilities of the water and sewerage entity so it would not have to deal with trade waste violations. Furthermore, the Government has promised to keep water and sewerage prices unsustainably low in an attempt to garner support for the takeover. Both of these are examples of how the government of the day might interfere with the sustainable delivery of water and sewerage services for Tasmania in the pursuit of political expediency.

There has been some commentary on the fact that TasWater has an independent skills-based board but little has been said about the calibre of the board. I had the benefit of sitting on the board's selection committee, which was a highly competitive process with over 40 applications for the position of chairman, and more than 100 people applying for positions as director. These applicants came from all over Australia as well as from overseas. The selection committee, comprising four owner/representatives from the south, two from the north and two from the north-west, was assisted by a national recruitment agency in selecting the original board and in managing subsequent regular turnover of directors. The chair is also selected for director positions.

I would also like to table a list of the current board members. From this, you will see a very healthy geographic and gender mix as well as an impressive range of skills held by six outstanding directors under the chairmanship of Mr Miles Hampton.

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The proposed changes to ownership and governance to TasWater come at significant risk to Tasmania, risk to the capital program, quality and time frames, to the financial sustainability of the corporation and to the state government budget. The report by Infrastructure Tasmania is little more than a highly qualified statement that the program can be delivered in seven years. Qualifications included no financial constraints, a new program delivery model, new governance arrangements, and a new procurement strategy. Local government believes that the ability to meet these qualifications is highly speculative and naive.

The highly politicised spin and aggressive stance by the state Government on this proposed takeover cannot be justified under the pretext of an imaginary crisis. It cannot be justified under the pretext of an aspirational capital expenditure program, with its attendant quality, time and costs risks. It cannot be justified under the proposed governance arrangements.

LGAT urges the Legislative Council to toss out this ill-informed and highly risky proposal by the state Government to take control of Tasmania's water and sewerage assets. Thank you, Chair.

**CHAIR** - Thank you. First question from Tania Rattray.

**Ms RATTRAY** - Doug, page 25 of LGAT's submission - and thank you, it is an extensive submission appreciated - you talk about the Government proposing a high-risk variation of the GBE model. Could you expand on what you believe is the high-risk aspect of the GBE model proposed by the Government?

**Mr CHIPMAN** - Look at GBE management overall and lack of accountability, even through the GBE Estimates program in regard to GBE's such as Hydro, et cetera. The capacity to shift tens of millions of dollars between one GBE and another to suit budgetary arrangements of the time. This would be risky to TasWater if the Government was able to shift the capital and the resources of TasWater around in the same way.

**Ms RATTRAY** - It is not the financial risk you are pointing to, more the governance arrangements and what might be able to be shifted around to meet other Government expectations?

**Mr CHIPMAN** - Absolutely, it is the governance of GBEs we are principally concerned about.

**Mr LESTER** - It is a highly irregular model of water utilities to have direct ministerial control over pricing and infrastructure. That is particularly risky for a water utility.

**Mr GAFFNEY** - I have three questions, but someone might have a supplementary for each one, so feel free to jump in. Thank you Mr Chipman and Mr Lester. I make note of the quality of the submission and know Dr Stevenson is not able to be here today, but pass on to Katrina and the people who put this together that it is a very good submission.

What extent are Tasmanians, through their councils acting as owners, been able to engage with board and senior staff of TasWater on issues important to them? The relationship is very important to the everyday Tasmanian. How do they get that message across? In GBE land that is not as easy. Would you comment on that?

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**Mr CHIPMAN** - There are two facets to that answer. One is the ongoing regular reporting and involvement. For example, the three-year corporate plan and owners are consulted. We have quarterly reporting and the AGM. If you look at the shareholder's letter of expectations there is a whole raft of consultation and reporting arrangements invoked by that. On an ongoing basis there is that accountability.

TasWater, even though it is not a GBE, currently reports to the parliament as part of the GBE process. Double-edged reporting could not occur otherwise.

Let me talk about a couple of instances, where the community through local government and their owners raised concerns and TasWater has been very responsive. The issue at Lauderdale where the sewerage system was being installed and TasWater assisted residents to come online by organising some loans. Some of those loans required a lien against the mortgage. Some resident's capacity to draw down on their mortgage was inhibited by the lien. TasWater, the CEO and the Chairman got involved with the community and the owners. With discussions the matter was resolved because TasWater, right from the chairman and the CEO down, were very responsive.

Another example, as a result of massive rainfall in the Coal River Valley, the Richmond ponds overflowed and sewage leaked into Pitt Water, disrupting the oyster industry. TasWater, once again right from the chairman and CEO, became involved. They met with local producers and gave an absolute priority to upgrade those ponds at Richmond. They are now fixed and risk is much lower.

Another example where a contractor living in my own municipality of Clarence, lost his contract with TasWater and felt he had a grievance. He raised it with me and I with Mike Brewster, who conducted an internal investigation over the procurement processes associated with that particular incident. We arranged the contractor to be properly debriefed so he fully understood what the problems were.

There are three examples of where owners have been able to interact with the highest levels of TasWater and achieve resolution, consideration and understanding. That sort of approach is simply not available with Aurora, TasNetworks or any other GBE. It is a magnificent capacity.

**Mr GAFFNEY** - Thank you. I am pleased you mentioned the 29 councils, because the Government, or the Treasury, raised that as a negative. We all live in different municipalities where we get newsletters from the local council. Every time I get a newsletter in Latrobe or Devonport, there is always a section in there about TasWater. The information gets through to most municipalities. Most people in Tasmania can access information. As you highlighted with 29 councils, that is actually a benefit of getting information across the state, so people feel they can have input.

**Mr LESTER** - It is important to also note TasWater has a very robust mechanism for engaging with community directly. They determine their capital expenditure priorities based on consultation mechanisms. They determine their trade waste policy based on engagement with their customers. Those parallel mechanisms from our perspective, seem to be working very well.

**Mr GAFFNEY** - My next question is -

**Ms RATTRAY** - Sorry, I have a supplementary on community engagement, only if you have finished that.

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**Mr GAFFNEY** - I have finished the community engagement.

**Ms RATTRAY** - I do not have quite as good an experience as indicated, Doug. Are those experiences you cited right across the state? I still get a lot of people contact me who raise TasWater issues. When I say to them, 'Your councils are your owners,' they look at me quite blankly and say, 'We have been there and they said to come here'. Does the communities understanding that TasWater belongs to council and therefore belongs to them directly as widespread as you have indicated to the member for Mersey?

**Mr CHIPMAN** - I would be very disappointed if TasWater was advising people to talk to government.

**Ms RATTRAY** - No, this is councils.

**Mr CHIPMAN** - Councils?

**Ms RATTRAY** - Councils say, 'Go around and see Tania. She will sort it for you'.

**Mr CHIPMAN** - I am astonished because that is not the model. This is an educational issue with some of the councils because from TasWater's perspective, through their quarterly meetings and ad hoc communications are wide open to take comment or questions from their owners. I am not sure why.

**Ms RATTRAY** - I agree, but have not experienced the level of community engagement in the examples cited. I am pleased those communities have that. I was interested in your feedback. Thank you.

**CHAIR** - I would back you up because I get many complaints to my office saying they have been to TasWater and they said to go to council, and council says to go to TasWater. Neither suggest to come here. It is usually to do with planning issues or new subdivisions, a variety of different issues, but everyone seems to pass the buck. It is interesting to have your comments.

**Mr CHIPMAN** - If I could follow up on that, if you have a look at the shareholder letter of expectation, which I have tabled, it actually places an onus on TasWater under economic development that -

...the corporation develops a strategic customer reliance that is aimed at growing business of customers and the corporation, and provides regular reports to the owners on economic development activities.

It also makes itself available to meet shareholders when requested. There is that opportunity there. If the councils are not taking advantage of that, we need to do something about it.

**Ms RATTRAY** - Perhaps there is a communication breakdown from councils -

**CHAIR** - There are a couple of submissions that refer to it.

**Ms RATTRAY** - to TasWater. In fairness to some of the issues, I think they are still hangovers from the initial amalgamation of the four water entities. That was not an easy road for

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anybody, and why we have the one we have today. There could be one connection with four lots of payments required in the one block situation, which is exactly what my office experienced. We had one water connection and we were paying for four connections.

**Mr CHIPMAN** - Is that still happening today?

**Ms RATTRAY** - Yes, because they said it's a TasWater policy and we cannot get out of it.

**Mr CHIPMAN** - I would like to pursue that because it does not make sense.

**Ms RATTRAY** - That is in fairness to some of the issues. I am just interested in your view.

**Mr GAFFNEY** - In my eight years as an MLC I have not had one person approach me in my office with a question about TasWater, so obviously on the north-west coast they have a better connection with their community. They are getting newsletters and information out. Not one. I ask the same question so I am not verballing him. I can understand it with Tania because she is the government representative in her area, so all issues - at local, state and federal level - I imagine can come to her door.

**Ms RATTRAY** - They do.

**Mr GAFFNEY** - I have not received one.

My second question is: how much influence do the owners have on TasWater's strategic planning operations? You mentioned that it is one of the worrying things about going to the government model that the minister of the day would have. What influence do the owners have and how does that work?

**Mr CHIPMAN** - It is worth coming back to the shareholder letter of expectation, which is the driving document. It is invoked by the constitution of the corporation, so it has to be there. It is a live document. It can be renegotiated. I think it goes back to 2013 and it was again amended on 28 July 2015, to talk about the economic development aspects and the function that TasWater has. In there it talks about the three-year corporate plan that TasWater has to come up with, which deals with pricing and service levels. It is quite extensive. That has to be presented to the owners at least six weeks before an annual general meeting and it has to be adopted by 31 July each year.

That living document is the basis for the owners being able to influence the corporation. I hasten to point out that the board is an independent board. It can make its own decisions and it has in the past. It does not always have to comply with what is in the shareholder letter if it perceives the interest to be in other directions. This becomes a very good basis for the communication that occurs between TasWater and its owners.

**Mr LESTER** - The mechanism within the shareholders agreement is such that it enables engagement, but it keeps the board's decision-making integrity there. If a situation arose where a significant number of the shareholders were proposing amendments to the corporate plan that were not consistent with the legislative requirements of TasWater, they have the ability to say no, we are not going to accept those amendments. It is a very important check and balance. Obviously it has not had to be used yet but if a situation arose where there were a bunch of

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councils misbehaving as far as the direction they believed TasWater should go in, the board can make a decision not to follow that direction.

**Mr VALENTINE** - Talking about the board and the way it operates, we were talking earlier about if the Government takes it over it could be seen as politicisation of services. Do you see what any of the governance issues might be in terms of the operational aspects and project selection, those sorts of things? Do you see that the Government's takeover might be able to be subverted for political purposes as opposed to doing projects that should be done in priority order rather than politically?

**Mr CHIPMAN** - Particularly as governments approach election time, there is a propensity to knee-jerk in response to issues of the day. That clearly has the capacity to upset a carefully thought-out strategic plan for developing the assets and the infrastructure and conducting the operations.

**Mr VALENTINE** - If there was a takeover then, would you see TasWater advocating for an arm's length approach even though the minister has some level of control? Would you be lobbying for that if that takeover took place?

**Mr CHIPMAN** - Most certainly. It is that independence and expertise that Tasmanians should, if they do not already, treasure and expect and hope for. We do not want to see issues of the day, particularly approaching election time, driving what is in the interests of Tasmania's water and sewerage. It is too important.

**Mr LESTER** - There was a national water reform in 2005. The principal reason for a lot of those reforms is to provide that arm's length so there could not be that opportunity for political interference. We have come a long way in Tasmania and nationally around how water authorities are governed. Certainly, it is not with ministerial direct control of water authorities in the country.

**Mr FARRELL** - We have been talking about the governance of the board. Doug, you mentioned earlier that it is a skills-based board. I imagine there is a certain number of people skilled in the areas that you need on the board. Are you aware of the Government having any discussions at all with any of the current board members in regard to becoming part of a government board to control TasWater?

**Mr CHIPMAN** - I have heard nothing along those lines whatsoever. I do know, if the organisation were changed as proposed, that the board would have to be spilled and presumably the Government would have to go through some sort of recruitment process. If it wanted to do that in an open and accountable way, for example advertise positions, do some screening and conduct interviews, et cetera, that is a three- to four-month process in itself.

**Ms RATTRAY** - At best.

**Mr FARRELL** - Yes, it seems to me, not using a bad pun, it would be throwing the baby out with the bath water in many ways because with the skills that you currently have on the board, if those people are not going to be used it makes you wonder a little bit.

**Mr CHIPMAN** - I would have to say, as an owner who has been involved in the board selection process, I am very proud of the board that TasWater has at the moment. We have a balance. Apart from the Chair, there are three males and three females; their qualifications are

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absolutely impeccable across a range of skills. If you look at the tabled document, they represent Hobart, Launceston, Sydney and Melbourne; that is, where the directors have come from. They have the technical, legal, financial and human relations expertise. It is an absolutely marvellous board.

**Mr FARRELL** - I am finished with that matter, thank you, Chair. I have some other questions later.

**Mr VALENTINE** - What are your thoughts on the issues of fairness and equity if there is a takeover? How may the shareholders' interests be dealt with? Do you see any issues of people's stake in the business being watered down if it is spread across the taxpayer base as opposed to the council's shareholding?

**Mr CHIPMAN** - It is a very good question. Local government has made the point that it has invested in the water and sewerage assets in Tasmania over many years.

**Mr VALENTINE** - Some more than others.

**Mr CHIPMAN** - Yes, and that it is right and just to expect some return from an ethical point of view. It is worth noting too, when the corporation was set up under National Competition Policy for monopolies, the requirement for the corporation to pay dividends was built into the legislation. Dividends are only one-third of the remuneration that councils receive. Of the \$20 million that is projected in coming profits, only one-third of that is going to be dividends. Almost half of it is in tax equivalents. These are statutory payments that have to be made. Even if councils receive no dividends, as such, the return to councils would be \$16 million a year.

There is the moral issue you raised: people and the communities have made that investment over many years. There has been an opportunity cost in that. Ratepayers putting money into those water and sewerage assets meant there has been less money available for parks, roads, footpaths and all that other community infrastructure. In that sense, it is absolutely right there is some return to recognise that sunk cost.

**Mr VALENTINE** - Some would say councils, having put money in and still having a broken system, do not have the right for that value to be returned. It is suggested that forgoing that value is something they should do because the system is not operating correctly, it is a mistake they have made or they have not put enough effort in. Do you have a comment?

**Mr CHIPMAN** - I do not think the system is broken today. We have a trajectory at the moment that is fantastic for Tasmania; the way the corporation is operating, the way it has a plan to remedy all the sewerage issues in the state, and the way it has almost completely fixed the water problems. By August next year it will be too late for the Government to have any influence, even if its takeover goes ahead, on fixing the water problems.

**Mr VALENTINE** - With respect to consultation with stakeholders, the community, has there been any discussion with TasWater as to how that might be improved for those complaining they do not receive good service from TasWater? Has there been any discussion of TasWater's interaction with their stakeholders?



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**Mr CHIPMAN** - I know from personal observation and experience that TasWater, from the chairman and the CEO, bend over backwards to meet with community when there is an issue of concern.

**Mr VALENTINE** - You mentioned that earlier.

**Mr CHIPMAN** - Yes. There are other examples of that. We had the pipeline south of Hobart. I know that was a sensitive issue, going across a reserve. TasWater went out of their way to consult as much as they possibly could on that.

There was the issue of putting the live data online in regard to water quality in the north-east. That is being resolved as well. I am not aware of an issue where TasWater has shied away or tried to hide behind a public issue. The chairman and the CEO have been highly proactive in trying to address any issue that has come up. TasWater have not been around -

**Ms RATTRAY** - May I make a comment about the real-time data? It has still not been -

**Mr CHIPMAN** - No, it is being - I am sorry, I did not say it has been -

**Ms RATTRAY** - Yes. It has not been resolved. We had a submission in regard to that.

**Mr CHIPMAN** - Yes. I used the word 'being'. It is being resolved as opposed to 'has been'.

**Ms RATTRAY** - Yes.

**Mr LESTER** - That is a really good example. We have to bear in mind that TasWater has not been around 10 years; it has not even been around five years. This is a new organisation. It has gone through massive cultural change. It went from 29 to three or four, and then it has gone through that again. As an organisation, it is still finding its feet in an extremely complex area. There is a massive amount of investment occurring at the same time.

In relation to the online water quality data, that is an extremely complex area. There are some testing parameters they can do in real time. Some testing parameters take 10 days before TasWater will see a result. Sometimes those results can create false positives that require scientific analysis around whether it was a positive or otherwise. Placing real time data up can lead to giving the community incorrect information if they stream everything they find.

The question then becomes, how much effort should the TasWater scientific team put into screening everything immediately to put it up online, versus contributing to the improvement of their assets? We know they have a program in play around that, but it is not as simple as sticking some data up on a website. Water quality data is extremely complex.

**Mr ARMSTRONG** - For my interest, did the pipeline go through Peter Murrell Reserve in the end?

**Mr CHIPMAN** - I believe so.

**Mr LESTER** - I think they are following the fire trail through there.

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**Mr ARMSTRONG** - As president of the LGAT and given the feedback you have received from your member councils on the payment of dividends, have many councils indicated to you how that is going to affect them financially, and in their sustainability?

**Mr CHIPMAN** - There is no doubt that some councils are more vulnerable than others in losing that dividend.

**Mr ARMSTRONG** - The smaller councils.

**Mr CHIPMAN** - I know the Huon Valley Council's capital program, for example, is highly dependent on it.

**Mr ARMSTRONG** - For \$600 000.

**Mr CHIPMAN** - Yes. There are other councils around the state that are dependent on it, particularly the small ones, for their ongoing operating costs. Some councils tag it for capital development. Some use it to underwrite and subsidise their operating program. I think all councils would have to make a considerable adjustment to their 10-year plans if those returns were not there. The alternative is that the revenue that TasWater generates, in particular the statutory revenue that it generates, would find its way into consolidated revenue for the Government. That might well be part of the attraction for the takeover.

**Mr GAFFNEY** - How much of TasWater's statutory revenue would go into the government's coffers?

**Mr CHIPMAN** - There is a TasWater fact sheet that is attached to our submission, which does have those figures.

**CHAIR** - It is probably better to do it later; some members have another meeting after this.

**Mr LESTER** - Take Brighton, for example. It is 10 per cent of their revenue. That is a council with a low socioeconomic base that has taken a deliberate policy position over the last few years to hold their rates as low as they possibly could. A 10 per cent decrease in revenue is massive for a council like Brighton.

**Mr ARMSTRONG** - The Huon Valley is around about 6 per cent.

**Mr LESTER** - Exactly.

**Mr ARMSTRONG** - We have heard a lot of complaints recently about the trade waste part of TasWater. Has the board or owner reps discussed this issue with TasWater about flexibility? Some of the comments we got were that they are very bureaucratic and confrontational at times. That was from the Tasmanian Chamber of Commerce and Industry. What role do you or the owner reps play? Do they consult on this? Have you and the owner reps been made aware of this? What comments can you give on that?

**Mr CHIPMAN** - In the routine meetings between TasWater and the owners it has not really emerged as an issue because it is a fairly recent issue in terms of its profile. I have discussed it with the chairman and the CEO. I have been assured that TasWater is working with the EPA at the highest levels in finding a way around it.

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What I find fascinating is the Government's knee-jerk response to this. On the one hand, it wants to see first world water and sewerage systems; and yet, on the other hand, it is willing to accept third world standards of trade waste. Trade waste has to be fixed if we want a first world water and sewerage system. How we go about it is important. Clearly some businesses are struggling to comply with the regulations. The onus is on us, on TasWater, and it is also on the state government that imposed these regulations, to assist those businesses to meet the standards.

The last thing we would want to see is for TasWater to be told, 'Don't worry about that, we are willing to accept a lower standard'. What has to happen is that we have to find a way as a community - state and local - and TasWater to help those businesses reach compliance standards.

**Ms RATTRAY** - In saying that, then, Doug, would your owner rep organisation, the council, have some negotiations with TasWater around what is expected from those business owners? We hear that they are proposing models that comply but because they are not the Rolls Royce, they are not being accepted and effectively are going to put people out of business.

**Mr CHIPMAN** - It is a work in progress. I was assured last night by Mike Brewster that they are in discussions, basically as we speak, with the EPA on alternative ways to do it. I know that TasWater is addressing this issue as a matter of priority. I take you back to the shareholder letter of expectation where local government requires TasWater to help businesses to develop and grow. It is something that is in their DNA. We want to see this problem resolved. We do not want to see businesses going out of business, but we do not see third world standards reintroduced.

**Ms RATTRAY** - None of the people who have made representation to me are expecting that they do not comply in some way; it is just the high level of compliance that is going to put them out of business.

**Mr VALENTINE** - Or the financial impost over a short period of time.

**Mr CHIPMAN** - TasWater is working with the EPA on how to achieve an appropriate standard.

**Mr LESTER** - While a single business going out of business is to be avoided, we need to put it in context. Of the 2700 identified trade waste customers, around 1500 were compliant when TasWater did the initial analysis. They were already compliant. Of the remaining 1200 - I do not know the number - the vast majority have had no problem with their engagement. There are some instances where there has been difficulty but it is the absolute minority that is having the difficulty, not the vast majority of those trade waste customers.

This is an important obligation where TasWater can be fined if it is not dealing with that trade waste input. Those individual businesses can also be fined under the state legislation on trade waste. All that TasWater is doing is protecting the interests of those businesses by ensuring they are compliant and protecting TasWater's interests by ensuring it is also complying with its requirements.

**Ms RATTRAY** - I think you will find that there has been some flexibility since this whole discussion has started, which is good.

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**Mr ARMSTRONG** - I do not know, Doug, whether you can answer this. You said you were on the selection for the board. The cost of the board has been raised with us through the organisation and the CEO. What is built into that with the board? When is it reviewed? How often do members' terms come up? Has there been any work done about reviewing what the cost of that board is to the organisation?

**Mr CHIPMAN** - There is an annual board review process that is undertaken by the owners through their selection committee and I am part of that. Each year, we also discuss with the chairman the make-up of the board and likely retirements, and initiate a recruitment process to replace members. The discussion of the overall cost of the board is not something I have been involved in. I think there is an acceptance, in one sense. In another sense, when we set up the board and recruited the board, we took advice from a national selection agency on what the board remuneration should be. I believe the remuneration to the directors and the chairman is quite modest when compared to like organisations and indeed some GBEs in Tasmania.

**Mr LESTER** - And more broadly. The average cost of salary for TasWater, including staff and the board, is the lowest of any water utility in the country. It is lower than the state public service at the moment by some \$15 000 per annum.

**Mr ARMSTRONG** - I do not know whether it was raised here in hearings or by the general public. It was something that has surfaced.

**Mr CHIPMAN** - We have not looked at it across the board and asked whether it is worth it and done some value analysis on that. But we have been very mindful, in recruiting for the board, that it be equitable and not extravagant. We felt that a board of seven was the appropriate number. It meets best-governance practices for a corporation of that size.

**CHAIR** - It has been raised. I have received literature from a variety of people about the \$2.8 million for the board and the management. Who determines all that remuneration? Do the member councils determine the remuneration of the board members? I know you said you have taken advice.

**Mr CHIPMAN** - The owner councils set the remuneration for the directors.

**CHAIR** - And for the management, or does the board determine the remuneration?

**Mr CHIPMAN** - No, the board does it for the management.

**Mr LESTER** - The management is benchmarked by a national standard which benchmarks salaries for equivalent positions across the nation with an allowance for local cost of living type structures.

**CHAIR** - No, I recall that someone has sent us information. I remember the \$2.8 million. You have probably received it as well.

**Mr LESTER** - I make the point again though, it is lower than for any other water utility in the country and it is lower when you look across the entire workforce than the public service as an average salary.

**CHAIR** - Thank you.

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**Ms RATTRAY** - I have a question in relation to those two very large projects that have been touted as 'if we continue on this path of the TasWater model, the Macquarie Point and the Launceston combined sewerage system will never ever be addressed'. Can you give me some response to that?

**Mr CHIPMAN** - I do not believe that it will never be addressed.

**CHAIR** - Launceston's is third world.

**Mr CHIPMAN** - The stormwater and sewerage system combined is certainly third world. There is no question about that. There are a couple of comments I would like to make.

One is that recent scientific analysis reveals that the water and sewerage combined system in Launceston is a very small part of the overall problem that the Tamar River has. Having said that, I still believe it needs to be fixed as soon as possible. You might recall, at the last federal election, that the local government sector as a whole unanimously identified fixing the combined system in Launceston as the very first priority in a task list for the federal government. It remains a very high priority.

**CHAIR** - A new tertiary plant, wasn't it, to deal with the sewerage?

**Mr CHIPMAN** - No, it was to fix the whole system, to separate the salt water and the sewerage system.

**CHAIR** - That is impossible - 9120 houses and many of them heritage.

**Mr CHIPMAN** - Okay.

**Ms RATTRAY** - The university project bumped them off?

**Mr CHIPMAN** - Yes, but it remains a priority for local government, as owners. It is something we put up there in lights and has not gone away.

It is interesting the Government has said while councils continue to own TasWater, there will never be any federal money coming in to assist. I cannot understand the basis of that statement when you look at a recent grant to Mount Isa Council to fix their sewerage system, even though Mount Isa takes dividends from its water and sewerage authority. There are other examples. As mayor of Clarence, I can recall the federal government gave Clarence City Council a grant to develop the recycled water scheme.

**Mr ARMSTRONG** - The Government says they are still going to pay dividends.

**Mr CHIPMAN** - Exactly right. If the change in ownership structure was a bonafide impediment for federal funding it would not impact whatsoever.

**Mr VALENTINE** - They said if they are making a profit, they will pay the dividends. They did not say it was going to be a mandatory payment.

**Mr ARMSTRONG** - It was to 2025?

## **PUBLIC**

**Mr VALENTINE** - Yes, after that.

**Mr LESTER** - The premise being claimed is the federal government would not invest in a utility that has the option to pay dividends. Not they are, but that they can or may.

**Mr CHIPMAN** - That claim does not stack up against what has just happened at Mount Isa.

The concern from the federal government is in applying money to a project they would be shovelling money into dividends. I have discussed this with the chair and the CEO, and TasWater has the capacity to set up a business unit with its overall structure to ensure any grant money for a particular project, like Macquarie Point or the Launceston Combined Sewerage System, can be quarantined from any profit or dividend generating activity. The federal government can be assured all their funds go straight into the project. TasWater has the capacity and can set up governance arrangements to ensure that.

**Mr GAFFNEY** - How does local government balance its responsibilities of a commercial business owner, on one hand, with their need to represent the interests of the communities by maintaining high delivery standards, but low prices? There is a conundrum because like trade waste, you either comply or do not. It is not about half complying with something. How do you balance the community saying, 'We are paying too much for our water and sewerage', but the EPA and regulator saying, 'That is the standard'.

**Mr CHIPMAN** - It is a balancing act. This was reflected in the discussion the owners had in regard to the returns from TasWater when it agreed to come back from the \$30 million and forgo some of its dividends in the interests of speeding up the water recovery and improvement program.

The DNA of that balance is reflected in the shareholder's letter to the corporation, where it is possible to set the standards, but also develop businesses in the community to consult with the community. That balance is something local government has always had, as the owner of water and sewerage and is built into the new arrangements.

**Mr GAFFNEY** - In the Government presentation, the Treasurer said he would undertake advice from the Economic Regulator regarding its increase between 2.5 per cent or 3.7 per cent. In 2005 and 2009 when this first happened, the then Bartlett government put a 5 per cent cap on which totally threw out the game plan for TasWater. The revenue changing decision put them back two years and was a disaster. I am always wary when the minister or Premier thinks they can take advice from independent authorities like the Economic Regulator and then determine what percentages they are going to apply. When you read that how did you feel about that situation?

**Mr CHIPMAN** - I felt, particularly with an election coming on, this was a mechanism to garner support for the take over. It was a very cynical exercise.

**Mr LESTER** - The principles behind and what informs the Economic Regulator are extremely important. Someone always pays. Our current regulatory and economic environment indicates the current generation should pay for the current works required. Artificially lowering prices for the short term will mean someone will pay in the future. That is contrary to National Competition Policy and the national economic regulator.

## PUBLIC

**Mr GAFFNEY** - If you have read the *Hansard* or heard the hearings we had recently, Steve Old from the Tasmanian Hospitality Association mentioned they were supportive of the take over because of discussion with the Treasurer and EPA regulations could be revised. That sent alarm bells through me. I am not sure if that was a correct reflection of the conversation Steve had with the Treasurer but it is what is on *Hansard*. Did you have a comment about?

**Mr CHIPMAN** - It gets back to political interference and what amounts to good governance in terms of regulation and standards. Do we want politicians interfering with those on a whim and having the power to do so without going through the parliament? It is imperative from good governance and standards in the long term, that the system can operate, due process takes place and we do not get knee jerk responses from politicians.

**Mr LESTER** - Doug made a point earlier that the biggest problem for the sewerage treatment plants in this state is trade waste. It has been acknowledged by the EPA and TasWater. If we are going to relax regulatory requirements around trade waste then we are going to continue with major sewerage treatment plant issues. That is going to have an impact on the environment and a cost on future communities to improve the standard of the infrastructure.

**CHAIR** - We have received a letter from the Treasurer. It was sent around yesterday regarding trade waste.

**Mr GAFFNEY** - We have not tabled that yet.

**CHAIR** - We have tabled; we received it by email.

**Mr CHIPMAN** - I am certainly not familiar with the contents.

**Mr GAFFNEY** - I was not concerned with the cost of the board structure. With the number of people who work for TasWater and over \$2 million financial aspect of the assets, the board runs at a skeletal cost. How do you feel when, only four years ago on 1 July, TasWater became its own entity and now the biggest take over in Tasmania's history? A state government trying to take over something that belongs to local government, knowing water is possibly the oil for the future. It is golden. In the future, water and infrastructure is going to be the biggest money spinner. How do councils feel with this big brother approach?

**Mr CHIPMAN** - Again, we simply cannot understand it. It gets back to risk. In setting up TasWater, it has taken a couple of years to find their feet, to set programs in place and do all the things to chart the course of the future. Tossing all out now and starting with new governance arrangements, a new board, imperatives, procurement policies and program delivery methods, goodness me, we are faced with another four years before getting things on track again. At the moment we have best practice in terms of water and sewerage.

**Mr GAFFNEY** - Thank you.

**Mr VALENTINE** - Does the separation of sewerage and water management through stormwater management cause any concern? Apart from the obvious concerns you have expressed already - the fact in Launceston where sewerage and water and stormwater come together, Hobart has more than one, but just in one there is 4300 homes. We do not know how many are inappropriately connected. New Town is probably in the same boat.

## **PUBLIC**

Is there a problem, or it might get to the point if the state Government has ownership and say to local government, stormwater is your issue because it is your homes inappropriately connected to the sewerage and water system?

**CHAIR** - That has already happened in Launceston.

**Mr VALENTINE** - It has and is happening here. Would local government be burdened with having a major fix, such as putting in a new stormwater system? Do you see that as a problem or possible problem for you if the Government takes over?

**Mr CHIPMAN** - Tasmania as a whole is best placed to solve this problem with the existing arrangements. With the councils as owners of TasWater, we have some prospect of addressing these particular problems like in Launceston and Hobart to the best effect.

**Mr VALENTINE** - I spoke with a councillor at the local government conference who used to work in the plumbing area. He said in regard to Launceston, there are stormwater, sewerage and water connections in walls in buildings. This is not going to be fixed overnight. Put in a bigger receptacle to take the overflows and stop it going into the river, but it is not an overnight fix. Do you see it might be placed on local government to actually fix the stormwater issue because sewerage and water is run by government?

**Mr CHIPMAN** - It is really important that we do not toss our hands in the air and dismiss the problem altogether. It is a huge problem and we cannot solve it. It is going to take massive resources and a long period of time.

**Mr VALENTINE** - That is right.

**Mr CHIPMAN** - If we can start off in the direction of rectifying it, we can take a step-by-step approach. There are a few things we can start to improve on. To do the journey, you have to take the first step. With local government as the owners of TasWater and the stormwater system, we are best placed to actually take that first step.

**Mr VALENTINE** - Rather than dividing it.

**CHAIR** - From talking to TasWater, my understanding in Launceston was it would provide a plant to treat the overflow of sewerage. They were saying even in London you can separate all the pipes, but suddenly the clay pipes are leaking anyway.

**Mr VALENTINE** - That is right. A final question: how often is the shareholder's letter of expectation revised or reviewed?

**Mr CHIPMAN** - It is looked at every year.

**Mr VALENTINE** - Not just the corporate plan, the letter of expectation; and whether that needs to change?

**Mr CHIPMAN** - It can change whenever it needs to.

**Mr VALENTINE** - Does the board or LGAT trigger this?



## **PUBLIC**

**Mr CHIPMAN** - There is a regular annual review, but it can also be triggered by any special circumstances.

**Mr LESTER** - This is version 3.

**Mr FARRELL** - Before I ask it, others have said about their personal experience. TasWater has always handled issues well that have come into my office, better than some GBEs that do not even reply. I would like that on record.

In the corporate world if shareholders do not want to sell, that is the end of it, particularly with a hostile takeover like the one proposed. You mentioned councils for and against. Two in my electorate - Glenorchy and Brighton - are against; and two, the Central Highlands with 1 per cent, Derwent Valley, depending on compensation. Are you aware of any guarantees Derwent Valley Council has had about getting paid out? Is this something they would negotiate through the Government alone or through TasWater?

**Mr CHIPMAN** - I am not aware of any agreement being struck between the Government and Derwent Valley Council. I am certainly not aware of any negotiations through TasWater, or indeed the owners in that regard.

You raised the point implicitly of the legality of a hostile takeover. We have expended on this in our submission. It would be a dreadful shame if the Legislative Council in being diligent in regard to the matter of the legislation for the takeover was not able to address the issue of the legality of the takeover. It would be an awful shame if the legislation went through this parliament and then ended up in the High Court. It would not be good for Tasmania.

**Mr FARRELL** - Certainly. That is more of a concern to me in some ways than the actual benefits of a GBE or otherwise.

**CHAIR** - Thank you very much for your submission and for coming in and speaking to us. It was difficult in the time frame we had and we appreciate the fact you made the time this morning to come in.

**Mr CHIPMAN** - It has been a privilege to be able to present to the committee and we greatly appreciate that.

**THE WITNESSES WITHDREW**