

32-34 Georges Bay Esplanade
St Helens Tasmania 7216
T: 03 6376 7900 | ABN 96 017 131 248



FROM THE MAYOR

3 September 2020

The Secretary Legislative Council
Select Committee – TWT Legislative Council
Parliament House
HOBART TAS 7000

Email: twt@parliament.tas.gov.au

Dear Select Committee,

Please find below Councils Submission to the Inquiry into TasWater Operations.

(1) The impact of compliance with regulated bodies.

Generally TasWater responses to Council Development Application referrals are progressing satisfactorily. Previously we have experienced problems surrounding approvals for Council infrastructure works which impact on TasWater infrastructure but that has improved in recent times.

(2) Operations in regard to the impact on business required to comply with Trade Waste regulations.

Council understands that this has had an impact on a number of businesses but Council is aware of support that TasWater put in place to assist businesses to resolve this situation. Addressing the impact of Trade Waste was important however Council is aware of some cases where the property owner refused to undertake the work resulting in the leasee having to undertake the works on the landlords property at their own cost to continue operations.

(3) The opportunity for re-use water expansion for irrigation.

No comment on this item.

(4) The management of sewage treatment including the disposal of the treated waste biosolids.

No comment on this item.

(5) The effect of TasWater's dividend policy on Local Government revenue.

The decision by TasWater to temporarily cease Dividend payments has had a significant impact on the Break O'Day Council resulting in a reduction in Council's capital works program and a tightening in delivery of services.

Council wrote to TasWater on the 28 March 2020 (copy attached) raising a number of concerns in relation to the situation and received a response dated 9 June 2020 (copy attached). Council is still of the view that the provision of rebates to business owners as part of the Covid 19 response has been effectively passed on to Councils. Ultimately when the latest financial results of TasWater are examined and non-cash transactions are excluded there is a direct correlation in relation to where the cash has come from to meet this support package.

(6) The delivery and timeliness of water services to Tasmanian communities.

Council is pleased with the progress TasWater has made with this situation.

(7) The effectiveness of business operations since the State Government became a shareholder in early 2019.

This was pleasing to see as it put an end to the divisiveness which had developed between the Tasmanian Government and Councils. No direct impact on business operations is evident.

(8) The impact of COVID-19 on business operations.

Naturally there has been a significant impact on business operations which seem to have been effectively addressed by the TasWater management team. Community engagement activities and community projects have been suspended but this reflects the broader situation across all areas of government.

If you would like to discuss this further or require any further information please do not hesitate to contact Council's General Manager, John Brown on 6376 7900 or via email john.brown@bodc.tas.gov.au .

Yours faithfully,

A handwritten signature in blue ink that reads "Mick Tucker". The signature is written in a cursive style with a large initial 'M'.

Mick Tucker
Mayor

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St Helens Tasmania 7216
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FROM THE MAYOR

28 March 2020

Dr Stephen Gumley
Chairman
TasWater
69 Main Road
MOONAH TAS 7009

sgumley@bigpond.net.au

Dear Chair,

I write to you as Owner Representative for Break O'Day Council seeking a deeper understanding about recent Tas Water decisions and processes regarding the payment of dividends. We are all too acutely aware of the financial effects of the current Covid-19 crisis, but we are struggling to understand why TasWater's concessions to customers seem to be being passed on to Council ratepayers.

We have to date not received a written explanation or rationale for these decisions and whether or not the current situation is considered by the Board to be an "adverse development" under the Shareholders' Letter of Expectation, and if so, on what grounds.

When the impact of not receiving a Dividend from TasWater is taken into account for a 12 month period, Break O'Day the overall financial impact on Break O'Day Council just in financial support measures to our community is now past \$1 Million over FY20 and FY21. This does not include the financial impact on our actual operational activities or the delivery of additional support services through our Community Care and Recovery Package.

To better understand Tas Water's financial position, the rationale for its decision making and to seek some assurances for the future in order that the harder hit Councils can reasonably predict revenue and plan for changes, we request the following information under Section 12.2 of the Tas Water Constitution:

1. Detailed explanation of the financial impact of Covid-19 including an analysis of both income and expenditure impacts in sufficient detail so that we can ascertain the relationship to the projected deficits of TasWater.
2. Identification of measures which have been implemented to mitigate the financial impact beyond the cessation of the Dividend payment.
3. What was the rationale for waiving rather than deferring certain tariffs for the fourth quarter, and why was it applied to all business customers rather than based on hardship?
4. What is the cost to TasWater of the actions in Question 1? And how does this cost relate to the cancelled dividends?
5. Given the timing of Covid-19 and the waiving of only fourth quarter bills, why was the third quarter dividend (as well as the fourth) not paid to the owners?
6. Is the current situation caused by Covid-19 considered by the Board to be an “adverse development” under the Shareholders’ Letter of Expectation, and if so, on what grounds?
7. If considered an “adverse development” has the process provided under Section 21.5 of the Shareholders’ Letter of Expectation with the Chief Owner’s Representative and the Crown’s Owner’s Representative been followed, and what were the outcomes of this?
8. Was an understanding of how the cancellation of the already reduced dividend would affect each of the owners sought by the Board?
9. Were changes to the capital works plan, a loan, delay or other options considered prior to deciding to cancel the dividend?
10. What assurances can the Board provide the owners about a resumption and magnitude of annual dividends as per the Corporate Plan and when this is likely to occur?

As you know, Break O’Day Council fought very strongly in support of TasWater during recent struggles with the State Government and we enjoy having a close and productive working relationship with TasWater.

We look forward to your responses to the above requests.

Yours sincerely,



Mick Tucker

Mayor

CC

Ailsa Sypkes, TasWater, Ailsa.Sypkes@taswater.com.au

Michael Brewster, TasWater, Michael.Brewster@taswater.com.au



TW HPE ref: 20/45589

9 June 2020

Dear Owner's Representative

Response to concerns raised regarding dividend suspension process

Three councils have recently written to me expressing understandable concerns, particularly relating to the suspension of dividends. For transparency and efficiency reasons, I have prepared a single response that is intended to cover all matters raised in the three letters received and provided copies to all other Owners. I also wanted to address the concerns raised in a single response to highlight the range of issues raised with me. In summary, I believe the support package TasWater provided, and the prudent financial measures that followed were balanced, and ultimately the right course of action to take. We will continue to work hard on maintaining our promises to our customers while fulfilling our obligations to shareholders and remain mindful of the needs of our employees and suppliers.

Background

The impact of COVID-19 has been significant on all sectors of the Tasmanian economy and is continuing to evolve. This has resulted in an early decision by the Board not to proceed with the approval of the initial draft FY2019/20 budget recommendations by management and the deferral of the Corporate Plan.

TasWater has endeavoured to manage the COVID-19 impacts proactively wherever possible. However in doing so, we have had, and will continue to have, to make some assumptions about how the business will operate during the current crisis and ultimately the recovery from it. Where necessary, our assumptions have erred on the side of conservatism to ensure we remain financially sustainable under the range of possible future scenarios. We will continue to revise and adapt our outlook as uncertainty decreases and clearer information becomes available. We note that the true economic impacts are expected to lag the health impacts by 3 to 6 months.

We have also sought to keep our Owners informed about the impacts of COVID-19 on our business, and our responses. We have held information sessions with Owners (23 March and 28 April), with correspondence subsequently provided to Owners confirming the key matters discussed at those sessions (refer correspondence dated 24 March, 26 March and 1 May). Information showing the attendees and recipients of the correspondence is provided in Attachment 1.

Timeline of events

The Board understands the importance of dividends to Councils and recognises that matters escalated with great speed in March and April as the COVID-19 situation unfolded. As a result otherwise extraordinary actions, communications and decisions were being undertaken in extremely

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short timeframes, with considerable uncertainty prevailing for everyone. It is therefore important to step back and carefully revisit the actual sequence of events. For this reason I have laid out those events of March and April in some detail for sharing with all Owners, some of whom may not have had the benefit of previously seeing the whole timeline mapped out. The timeline below also responds to a question raised by West Tamar Council in its correspondence i.e. Did TasWater ask the State Government for support before cutting dividends?

I apologise in advance for the level of repetition in this correspondence as we have focused on directly answering each question raised by respective councils and therefore tried to minimise the number of times we refer back to earlier advice in this correspondence.

Summary timeline

As the COVID-19 pandemic impacts escalated in mid March, the Department of Treasury and Finance (Treasury) on behalf of the State Government (Government) sought agreement from TasWater to freeze prices in FY2021 and provide a full bill rebate for small and medium enterprises in Quarter 4 of FY2020.

Following these discussions with Treasury, management briefed the Board and the Chief Owner's Representative who requested that a Special General Meeting be called to brief Owners about the Government's request.

At its meeting of 20 March the Board considered the preliminary financial impact assessment prepared by management and determined that before any decision could be made on whether to support the Government's request, the following activities must be undertaken:

- That the CEO propose a more targeted and less impactful alternative to the State Government
- Management seek written confirmation from Treasury that they will put in place arrangements for the Tasmanian Public Finance Corporation (TasCorp) to fund TasWater to the extent necessary over the next six to nine months to cope with any likely cashflow shortfall
- That Owners be consulted before a decision is made on whether to proceed with the concessions.

The CEO contacted the Treasury Secretary on the next day to seek feedback as to whether the Government would be prepared to accept the less impactful alternative proposed by the TasWater Board. The alternative proposition was subsequently not accepted by the State Government. We were advised that the primary basis for this decision was that the state-owned electricity businesses were going to provide the equivalent concessions and therefore it would not be appropriate for TasWater to proceed with an alternative less supportive scheme. In addition we were advised that the Government would be seeking to introduce new emergency legislation which would enable them to effectively direct TasWater to provide the concessions. The potential reputational impact on TasWater and Councils was considered to be substantial were we to refuse the Government's request and then be instructed to do so irrespective.

A special Owners' information session¹ was conducted between 10.00am and 11.30am on Monday 23 March in advance of a Board meeting planned for later that day to formally consider the State Government's requests. The three key agenda items for that meeting were:

- a. Deferral of the requirement to provide and approve the annual Corporate Plan
- b. State Government request for a price freeze and other possible alternatives

¹ The meeting was not constituted as a formal General Meeting due to timing constraints associated with COVID-19.

c. Feedback from Owners.

It should be noted that when the special Owners' information session was called in March it was unclear how successful Tasmania would be in limiting the spread of the disease, nor its morbidity. As such, the likely economic impacts on individuals, communities and businesses across the state was hard to predict and to this day the full financial and economic impact of COVID-19 is still to be determined.

The notes recorded from the meeting of the 23 March were:

- 23 of our Owners were represented at the teleconference
- The Acting Chairman² provided Owners with an overview of the discussions held in the out of session Board meeting on 20 March 2020 and the decisions reached, including the alternative price freeze scenario
- The CEO provided an update on the discussions with State Government over the weekend and the CFO provided a high level outline of the potential financial implications, including current assessments of best and worst case scenarios
- The Owners were advised that there could be no guarantees given at present in relation to the payment of dividends, but TasWater would keep Owners informed as the situation unfolds, noting that Councils may be dependent upon dividends to fund their services
- The Acting Chairman noted the Federal Government's announcements in relation to changes to the Corporations Act 2001 regarding directors' solvency obligations, but advised Owners that the TasWater Board would continue to abide by its usual solvency obligations
- The Acting Chairman advised the Owners of the 'adverse development' mechanism under section 25.1 of the Shareholders' Letter of Expectations, and the ability to seek financial or support or other comfort from the State Government as a result. The Owners were advised that the Board had formed a view that such a development has occurred and that therefore a letter would be issued on 24 March 2020 invoking that mechanism.
- On the whole, Owners expressed support for TasWater's actions to date, although some Owner Councils expressed concern about the prospect of reduced or non-payment of dividends.

At its subsequent meeting of 23 March, having received generally favourable feedback from Owners represented at the Owners' information session earlier in the day, the Board resolved to proceed with the price freeze and quarter four rebates for small and medium enterprises as requested by the State Government.

At this point in time the Board was not in a position to make a decision on whether to suspend or continue with dividends as it required further analysis to be undertaken by management. This in-depth financial analysis was subsequently provided to the Board for its consideration at its 20 April Board meeting. It was at this meeting that the Board was then able to carefully consider the impact of COVID-19 on dividend payments. Having considered the financial advice provided by management, the Board approved management seeking a new TasCorp borrowing facility limit of \$775M³ and resolved to defer a formal decision in relation to dividend payments until after consultation with Owners.

² The Chairman was unavailable due to COVID -19 related international travel restrictions, therefore Mr Nick Burrows was fulfilling the role of Acting Chairman.

³ Correspondence had previously been sent to the CEO of the Tasmanian Public Finance Corporation on 1 April 2020 formally confirming earlier verbal advice from Treasury that we were being provided with an immediate \$35M increase in our borrowing limit taking to \$660M. This correspondence also flagged that we were currently undertaking a more detailed set of financial projections with a possibility that we may need to increase our borrowing limit by an additional \$140M to allow us to manage our cashflows through the next 14 months.

An Owners' information session was subsequently held on 28 April with key topics including a briefing on TasWater's financial position and the consideration of whether payment of dividends was prudent under the circumstances. Owners provided feedback and raised a series of questions predominantly related to the financial situation and the impact on Councils if TasWater suspended dividend payments. A summary of the meeting was provided to all Owners post the meeting.

The Chairman and CEO subsequently briefed the Board on the feedback from the 28 April Owners' information session. After carefully considering the feedback from Owners and the financial analysis provided by management, the Board resolved to suspend the balance of FY2019/20 dividends. This decision was then communicated to Owners. While we are not currently in a position to approve the resumption of dividend payments, we are determined to return to paying dividends at the earliest opportunity.

Concurrent with the series of events described above, there was also a need to determine whether to proceed with the submission of our next Price and Service Plan (PSP4) proposal due to be submitted to the Regulator on 30 June 2020. The Board ultimately decided that we should write to the Premier and seek a one year deferral due to the extent of financial uncertainty associated with COVID-19. The Chairman subsequently wrote to the Premier on 2 April and on 11 May received a positive response advising that the current Price and Service Plan Period (PSP3) would be extended by a year to 30 June 2022 and that the Government would use its new COVID-19 emergency powers to instruct the Economic Regulator accordingly.

Requests under Section 12.2 SLE

We have addressed each of the requests for further information received from Owner Councils in turn.

1) Detailed explanation of the financial impact of COVID-19, including an analysis of both income and expenditure impacts in sufficient detail so that we can ascertain the relationship to the projected deficits of TasWater (Break O'Day Council Q1)

The full impact of COVID-19 on our business is difficult to determine at this time. In considering the potential financial impacts we have focused on our forecasted cashflows and expected borrowing requirements relative to our available facility headroom. Management and the TasWater Board have had to make several high-level assumptions to forecast the potential impacts under a number of different scenarios.

Three scenarios were developed to represent plausible and relevant views of what the future could be, as set out in Table 1. These scenarios are consistent with those developed by Deloitte to assist entities in defining the breadth of potential financial outcomes from COVID-19. Our scenario analysis has been further informed through consultation with other water industry participants via a series of WSAA online forums attended by water entity CFOs and Finance Managers from across Australia and New Zealand.

Table 1: Description of Scenarios

	Scenario 1 Successful virus mitigation and economic recovery	Scenario 2 Ongoing social distancing and extended response	Scenario 3 Ongoing shutdown and social unrest
Health Impact	A successful public health response together with the development of improved testing technology limits the health impact of COVID-19.	Ongoing social distancing and limited fiscal support leads to an extended period of detrimental health outcomes.	Ineffective measures to control the outbreak of the virus in Australia results in devastating loss of life.
Economic Impact	Additional economic survival packages enable a rapid economic recovery.	The economic recovery is slow as Australia is caught in a liquidity trap – high unemployment and central banks have no ammunition.	Deep and enduring economic disruption forcing Australia to seek a global bailout to recover.
Longevity	A sudden and sharp hit to growth followed by a period of solid economic recovery. Timeframe – 6 months	A severe economic impact in the short term before a period of moderate improvement. Timeframe – 12 months	A prolonged period of weak economic activity following severe disruption. Timeframe – 2 years plus

We opted to focus on Scenario 2 as the mid case however it is still too early to determine which scenario might eventually represent the impact of COVID-19.

Revenue

The forecasted impact of COVID-19 on our revenue streams for each scenario is outlined in Table 2 below.

Table 2: Key Revenue Impacts

Description	February Forecast	Scenario 1 Successful virus mitigation and economic recovery	Scenario 2 Ongoing social distancing and extended response	Scenario 3 Ongoing shutdown and social unrest
	FY2019/20 \$'000	FY2020/21 \$'000	FY2020/21 \$'000	FY2020/21 \$'000
Initial Revenue	362,666	377,313	377,313	377,313
Change in Revenue	(11,267)	(18,824)	(30,147)	(35,307)
Revised Revenue	351,399	358,490	347,166	342,006

The major anticipated impacts to revenue from COVID-19 are as follows:

- **FY2019/20 quarter four 100% bill rebates to qualifying businesses**

We are providing eligible small businesses with a 100 percent bill rebate for the fourth quarter of FY2019/20. We anticipate a revenue loss between \$9M and \$12.5M depending upon the takeup by customers. As we work through the complexities of the data matching process we will be better able to refine this estimated impact, but actual costs will not be known until the end of the first quarter of FY2020/21.

- **FY2020/21 price freeze**

The price freeze is estimated to decrease revenue by \$13.0M in FY2020/21. The compounding annual impact of the price freeze over a 10-year period would be in the order of \$17.7M by the 10th year. i.e. the price freeze will not only affect FY 2020/21 but will have impacts that last many years.

- **FY2020/21 developer revenue**

Our forecast has been revised down by \$14.5M to reflect a drop off in developer activity which is highly likely given the widespread economic uncertainty. The actual impact is difficult to determine, and consequently the forecast risk is extremely high. The recently announced Federal and State housing grants may reduce the forecasted impact on development activity. This will be considered as part of our updated FY2020/21 budget. Importantly, this is a non-cash revenue stream.

There is expected to be a lag before the forecasted drop in revenue as active projects are completed over the coming months.

The developer revenue pipeline will be monitored closely as will any additional Federal and State stimulus measures designed to support developers and the construction industry in general. This will allow more accurate estimation of the potential impacts on this significant income stream.

Expenditure

The forecasted impacts of COVID-19 on our expenditure items for each scenario is outlined in Table 4 below.

Table 4: Key Expense Impacts

Description	February Forecast	Scenario 1 Successful virus mitigation and economic recovery	Scenario 2 Ongoing social distancing and extended response	Scenario 3 Ongoing shutdown and social unrest
	FY2019/20 \$'000	FY2020/21 \$'000	FY2020/21 \$'000	FY2020/21 \$'000
Initial Expenditure	204,175	217,101	217,101	217,101
Change in Expenditure	5,751	(930)	19,576	48,449
Revised Expenditure	209,926	216,171	236,677	265,550

The major impacts to expenditure from COVID-19 are as follows:

- **Bad debts and extension of hardship program**

It is highly probable that we will experience a significant increase in the number of bad debts and requests for hardship assistance as more customers experience financial stress associated with COVID-19.

Our exposure to bad debt is heightened by the fact that under our current legislative framework debt is attached to an individual, not to the property itself.

This means that, unlike Councils, TasWater is not able to collect outstanding debtor balances on a sale of property unless we have first established the debt exists through court proceedings and successfully registered a caveat on title. The associated costs often outweigh the actual debt: this is one of the reasons why TasWater is seeking legislative change in this area.

In the absence of such legislative change, any bad debts are written off to the profit and loss statement as expenses when incurred, rather than simply being a cashflow deferral.

In order to understand the potential impacts, we have reviewed our customer base and modelled different debtor collection scenarios at a customer sector level.

We have also undertaken research to identify those sectors considered to be heavily exposed to COVID-19, either through enforced closure due to Federal or State Government policy or via a drop

off in demand, and the potential timeframe of when disruption is forecast to be at its peak. The knowledge gained from this research has enabled assumptions to be made for each risk category, with respect to:

- the percentage of the customers who will pay on time
- the percentage who will pay late and on average how many additional days late and
- the bad debt percentage.

In FY2019/20 it is expected our provisioning will need to increase by \$9.1M. This increase consists of an additional provision of \$5.1M on current debtors as at 31 March 2020, as well as a further \$4.0M for uncollectable revenue over the last quarter of the current financial year.

The forecasted impact on bad debts/hardship for Scenario 2 for FY2020/21 is \$35.5M.

- **Reduction in strategic investments**

Each year TasWater considers how it can fund and deliver strategic improvements (as opposed to maintaining business as usual activities) as part of its budget development process.

COVID-19 has presented our business and the world with an unprecedented situation to manage. Our focus, as it should be, is on maintaining our quality of services for our customers and providing support for those who need it most. Reduction in investment may affect our roadmap to achieving our vision, requiring a review of our Corporate Plan FY2021-25 and strategic framework, which will need to reflect the new environment that we will be operating in.

As a temporary measure we have put all strategic investments on hold while we review our budget position. This will result in the deferral of approximately \$1.9M of operational costs in FY2019/20. The funding for strategic investments in FY2020/21 is still being reviewed, however, is likely to be reduced by \$6.5M to \$9.3M compared to the funding originally being considered prior to COVID-19. The funding reduction is likely to impact on our ability to deliver on activities aimed at improving our performance in a number of areas including: public health outcomes, environmental compliance, community and stakeholder engagement, culture, and innovation. We are currently proposing to maintain our investments aimed at improving health and safety performance, delivering our digital strategy and implementing our COVID-19 business recovery plan.

We have taken a similar approach in relation to discretionary expenditure. The TasWater Board will consider a revised FY2020/21 budget at its June Board meeting, which will ultimately inform our Corporate Plan FY2021-25.

- **Reduction in discretionary expenditure**

As noted above, we have reviewed our discretionary spend for the remainder of FY2019/20 and FY2020/21 to minimise the financial impact of decreased revenue, an increase in bad debt provisioning and the extension of the customer hardship program. This includes potential reductions in salary costs through not filling vacant roles, reduction in travel, training, recruitment related costs, motor vehicle costs and consultancy costs.

The TasWater executive team will forego any salary increases, and the Board Chairman will recommend a zero percent increase in directors' fees to the Board Selection Committee. Whilst these are not material reductions in and of themselves, they demonstrate the level to which we are scrutinising our expenditure.

The discretionary spend review is ongoing with further analysis required to determine the potential impact of the discretionary spend reduction on our operational activities, including the effects on our ability to achieve or maintain our performance objectives and stakeholder promises and obligations.

The Corporate Plan to be presented to Owners later in 2020 will incorporate the final budget details, including discretionary expenditure.

- **Increased costs to respond/recover from the pandemic**

Additional costs associated with COVID-19 include increases in insurance premiums, communication costs to assist through the pandemic, costs associated with managing our way through the pandemic, recovery, provisions for bad debts and projected hardship support for customers. The projected change in expenditure as advised in Table 4 above is a \$5.75M increase in FY2019/20 with the mid range Scenario 2 case resulting in a \$19.6M increase for FY2020/21.

We have also undertaken a cashflow analysis to determine how COVID-19 could impact on our borrowing requirements, with a considerable uplift in our loan facility limit required. The State Government co-ordinated a \$35M uplift to our borrowing facility as an immediate interim response to COVID-19. We have since supplied detailed financial analysis to TasCorp in support of an additional request for a further \$115M uplift. This funding request is currently being considered by TasCorp in conjunction with similar requests from other GBEs and State authorities.

2) Indication of measures which have been implemented to mitigate the financial impact beyond the cessation of the dividend payment (Break O' Day Council Q2)

We immediately put a freeze on all planned strategic investments, a recruitment freeze for non-essential positions, a travel ban for non-essential activities and commenced a discretionary cost review which will culminate in a revised budget being presented to the Board in last week of June 2020.

TasWater regularly benchmarks its expenditure against other Australian water utilities. Our productivity improvement program has delivered efficiencies in excess of \$24M since the commencement of TasWater in 2013 and a continuous focus on efficiency has become part of our 'business as usual' operations. The COVID-19 pandemic and resulting impacts has reinforced our focus on keeping our expenses as low as possible whilst maintaining quality of services for our customers.

Consideration was also given to reducing the level of capital program investment. While this is a viable option in the event that the financial impact approaches that envisaged in Scenario 3, the Board chose not to slow down the program at this point in time. The key reasons for this decision were:

- i. Our own assessment of the positive economic and regional employment benefits that flow from continuing with the planned expenditure
- ii. Advice from the government on the importance to the state's economy of the capital program
- iii. Advice from Treasury that the State Government would support a significant lift in our borrowing limit on the understanding that we will continue with the capital program.

We have recently received a lift in our borrowing capacity of \$35M and are working with the Tasmanian Public Finance Corporation to further lift our borrowing limit by \$115M. In the event that the borrowing limit required to sustain the capital program did not materialise, we would reduce the level of capital expenditure to ensure we remain within our borrowing limit and are long term financially sustainable.

3) What was the rationale for waiving rather than deferring certain tariffs for the fourth quarter, and why was it applied to all business customers rather than based on hardship? (Break O'Day Council Q3 and Brighton Council Q1)

As part of an overall effort to support a vital sector of the economy in the early days of the pandemic, the State Government raised the waiver of water and sewerage charges for the fourth quarter of FY2019/20 for eligible small to medium business customers (SME). This was proposed in alignment with a similar relief measure to be provided by the State Government-owned electricity retailer, Aurora Energy.

This matter was discussed at the Owners' information session held on 23 March 2020, together with the proposed 12 month freeze on regulated water and sewerage prices for all customers effective from 1 July 2020. Based on the information available at the time, our estimates were that the SME rebate could decrease TasWater's revenue by up to \$12M in the current financial year, whilst the price freeze from 1 July 2020 will reduce revenue by \$13M in FY2020/21, with compounding impacts for further years.

The combination of these foreseeable impacts, as well as the significant uncertainty about future direct and indirect impacts, were important factors in the TasWater Board's deliberations in relation to dividend payments for the balance of FY2019/20.

Whilst not all Owners attended the information session on 23 March, and it was not a formally constituted meeting, the majority of Owners were represented. A number of those present noted that providing the SME rebate would provide critical assistance to this sector and support the overall Tasmanian economy.

The TasWater Board met following the Owners' information session and agreed to provide the fourth quarter rebate to eligible small to medium business customers. Eligibility is based on the following criteria:

- Customers supplied with electricity under specific Aurora Energy tariffs, or equivalent tariffs by other electricity retailers in Tasmania
- Customers whose annual electricity consumption (aggregated across all sites) does not exceed 150MWh.

Given that customers are identified differently for electricity services than for TasWater's services, significant effort has gone into 'matching' data sets to ensure that the waiver is appropriately applied.

Actual costs are unlikely to be known until the end of the first quarter of FY2020/21.

It is important to note that the Tasmanian Parliament has passed legislation enabling the Treasurer, where he or she is of the view that the economic effects of COVID-19 are such that it is necessary or desirable to do so, to:

.....by notice, declare that, despite a provision of a relevant legislative instrument, a rate, fee, tax, impost, charge or other amount payable under the provision –

(a) is not payable by each member of a class specified in the notice; or

(b) is not payable, by each member of a class specified in the notice, in the circumstances specified in the notice; or

(c) is not payable, by each member of a class specified in the notice, until a date specified in the notice; or

(d) may, at the discretion of the Secretary of the Department that is responsible for the relevant legislative instrument, be waived, in relation to each member of a class specified in the notice, by the Secretary of that Department.⁴

This extends to the ability to issue a relevant notice in relation to the waiver or deferral of TasWater's charges, which are set in accordance with a pricing determination process by the Tasmanian Economic Regulator under the Water and Sewerage Industry Act 2008 and related subordinate legislation⁵. The COVID-19 Disease Emergency (Miscellaneous Provisions) Act 2020 came into effect on 27 March 2020 and a number of notices have already been issued under section 23⁶.

In effect, had the TasWater Board not acceded to the State Government's request that we support the initiative to provide short term relief to the SME sector, or to freeze regulated prices, it would have been within the Treasurer's power to mandate those outcomes.

4) What is the cost to TasWater of the actions in Question 1? And how does this cost relate to the cancelled dividends? (Break O'Day Council Q4 and Brighton Council Q2)

While the answers to this question were provided in further detail at the 28 April 2020 Owner meeting and in the follow up Briefing summary dated 28 April 2020, we have summarised the key points in the paragraph below.

Our mid case scenario (Scenario 2 from our financial analysis) was used as the base case for assessing the impact on the business of COVID-19. The net impact should scenario 2 materialise would be a \$19M reduction in forecast profits to a net profit of \$21.5M in FY2019/20 and a \$54M forecast reduction in profits to a net loss of \$13M in FY2020/21. Our interest cover ratio for FY2020/21 would also drop to 0.43 being materially below the target of 2.0 for the corporation.

While it is possible that the impact could be less than that envisaged in Scenario 2, equally at the time the decision was made, it could be materially worse e.g. Scenario 3, in which case the FY2020/21 loss would be in the order of \$48M.

While the likely impact of the price freeze and Quarter 4 waiver for small and medium businesses was known at the time of making the decision to freeze dividends, we did not know what the impact of COVID-19 on developer revenue and bad debts would be and still cannot be certain of the longer term impact. Given the potential impact and high degree of uncertainty associated with developer revenue and bad debts, the Board made the prudent decision to freeze dividend payments until we were in a better position to assess our ability to meet dividend payments from profits. This was conveyed to Councils through our correspondence and briefing sessions. If the impact of COVID-19 on our financial situation is materially better than what was envisaged in Scenario 2, the Board will reconsider its decision regarding the suspension of dividends.

5) Given the timing of COVID-19 and the waiving of only fourth quarter bills, why was the third quarter dividend (as well as the fourth) not paid to Owners? (Break O'Day Council Q5 and Brighton Council Q3)

The dividend payment for the third quarter of FY2019/20 was due to be paid to Owner Councils on 31 March 2020, and management had been preparing to make a recommendation in relation to payment to the TasWater Board at its meeting scheduled for 25 March 2020.

⁴ COVID-19 Disease Emergency (Miscellaneous Provisions) Act 2020, section 23(1)

⁵ The Tasmanian Economic Regulator (TER) is responsible for the regulation of prices, terms and conditions for regulated services and making price determinations (sections 12, 64 and 66, *Water and Sewerage Industry Act 2008*). This is effected through the TER's Final Report and Pricing Determination issued under 66 of the Act, and it is a condition of TasWater's operating licence that it comply with such a determination (section 67(9)).

⁶ See <https://coronavirus.tas.gov.au/resources>

However, on 17 March 2020 a public health emergency was declared in Tasmania under the Public Health Act 1997, with the Premier subsequently declaring a state of emergency on 19 March under the Emergency Management Act 2006. These declarations, together with the various restrictions put in place by the Federal and State Governments, required TasWater to halt this process pending the urgent assessment of the implications of these actions, and the consequences of COVID-19, upon TasWater's current and future position.

As noted at the information session on 23 March and in our letter to Owner Councils of 24 March, we immediately commenced a review of our financial position and budget, noting the potential impacts upon revenues and working capital. Whilst we noted that the TasWater Board would endeavour to maintain dividends to the maximum extent possible, we also noted that this was not guaranteed and our Owner Councils would be kept informed if this was not likely to be sustainable.

The dividend payment for the third quarter was effectively put on hold to enable further time to assess the likely implications of COVID-19 upon TasWater, with this matter ultimately being determined by the TasWater Board at its meeting on 29 April 2020.

6) Is the current situation caused by COVID-19 considered by the Board to be an adverse development under the Shareholder's Letter of Expectations, and if so, on what grounds (Break O'Day Council Q6 and Brighton Council Q4)

Under the SLE TasWater is committed to three key objectives, being:

- The maintenance of dividends to Owner Councils in line with Corporate Plan expectations
- The delivery of a capital program in the order of \$1.8B over the 10 year period to 30 June 2026 and
- The limiting of annual price increases for regulated water and sewerage services to within the 3.5% cap from 1 July 2020 until 30 June 2025.

Following the information session on 23 March 2020, TasWater wrote to Owners' Representatives (including the Crown's Owner's Representative) advising that the TasWater Board had formed the view that the COVID-19 pandemic constituted an 'adverse development' – this is, an event or circumstance outside our reasonable control – that could impact our ability to meet those objectives whilst maintaining the organisation's financial sustainability.

The TasWater Board had formed that view based on the preliminary assessment of the potential impacts of the pandemic, noting the formal declarations of public health emergency and state of emergency, the imposition of restrictions, and the potential effects upon not only our own business, but also our customers, contractors and suppliers.

7) If considered an 'adverse development' has the process under section 21.5 of the SLE with the Chief Owners' Representative and the Crown's Owner's Representative been followed, and what were the outcomes of this? (Break O'Day Council Q7 and Brighton Council Q5)

Prior to the information session on 23 March, the CEO and Acting Chairman engaged with the Chief Owners' Representative regarding the potential for the COVID-19 pandemic to be an 'adverse development' under the SLE. As noted above, all Owners' Representatives, including the Chief Owners' Representative, received correspondence advising of the TasWater Board's decision to invoke the mechanism under section 21.5 of the SLE.

In addition to notifying the Crown's Owner's Representative, TasWater also wrote to the Premier on 24 March 2020. As required under the SLE, TasWater then engaged with the Crown's Owner's Representative to consider the situation and seek additional financial support or comfort from the Crown.

In response, and as an immediate measure, the State Government provided the necessary written approvals and comfort to enable TasWater to quickly access COVID-19-related borrowings if required. This included the lifting of our borrowing limit by \$35M and approval for deferral of our next Price and Services Plan submission by one year given the impacts of COVID-19 and the associated uncertainty.

8) Was an understanding of how the cancellation of the already reduced dividend would affect each of the Owners sought by the Board? (Break O'Day Council Q8 and Brighton Council Q6)

We were deeply aware of the likely impact of a reduced dividend payment on Owner Councils. It was for this reason the Board made the decision to call an Owners information and feedback session in advance of making any Board decision on whether to suspend dividends, even though there is no obligation on the Board to do so. We encouraged Owner feedback on the impacts of a dividend suspension at the meeting and it was certainly a key input in terms of the final decision.

Ultimately Directors have an overarching legal obligation to act in the best interests of the business. This includes the consideration of whether or not it is prudent to pay dividends to shareholders as a class, not based on the impact on individual Owner Councils of non-payment. While the Board understood and was very concerned with the potential impact on Owner Councils of suspending dividend payments, ultimately it could not justify making dividend payments when the most likely scenario involved an underlying loss in FY2019/20 and a significant loss in FY2020/21 with the possibility that the financial situation could be much worse.

We will continuously review our understanding of the impacts of COVID-19 on TasWater and will provide updates each quarter to our Owners, with the expectation that we return to a position where dividend payments can resume as soon as possible.

In response to the question regarding the impact on individual councils, we have reviewed and analysed the publicly available information about each Council (such as the Tasmanian Audit Office's Local Government Authorities Summary Tables 2018-19)⁷ to enable us to better understand the contribution of dividend payments to each Council's overall revenue, together with more general information.

9) Were changes to the capital works plan, a loan, delay or other options considered prior to deciding to cancel the dividend? (Break O'Day Council Q9 and Brighton Council Q7)

TasWater has looked at all the options it can feasibly utilise to minimise the impacts of COVID-19 and to ensure it remains a sustainable business into the future.

In addition to scrutinising opportunities to manage its costs both for the balance of the current financial year and into FY2020/21, we have also sought to increase our borrowing limit to \$660M (which has been approved), with an anticipated further increase to \$775M by 30 June 2021 to support delivery of our capital program. As noted earlier in this correspondence, we wrote to TasCorp setting out our anticipated borrowing requirements in advance of any decision to suspend dividend payments.

Whilst a reduction in the scope of our capital program is possible, and would also reduce our need to increase our debt limits, the importance of this program to the overall Tasmanian economy cannot be underestimated. As such, we have sought to prudently utilise debt to support delivery of this critical program.

Our capital program is centred on meeting our regulatory compliance obligations, providing improvements to overall services for our customers and communities and supporting growth and

⁷ <https://www.audit.tas.gov.au/publication/local-government-authorities-2018-19/>

development. A reduction in that program resulting in delayed customer service improvements would need to be supported by Regulators and would directly impact the Tasmanian contracting and consulting sector, many of which are also experiencing significant financial distress arising from COVID-19.

Whilst TasWater would have the ability in theory to seek an increase in annual prices beyond the agreed 3.5% cap, this would pose significant reputational risks for both TasWater and Owner Councils, and potentially be moot given the Treasurer's powers under the COVID-19 Disease Emergency (Miscellaneous Provisions) Act 2020). Even if possible, it could potentially just exacerbate the impacts associated with bad debt and our customer hardship program.

Like every impacted business, possible further cost saving measures were also considered, including redundancies, a reduction in the capital program, wage freezes and forced leave for employees, however there are good reasons why these were not pursued at the time.

- Pursuing redundancies at a time when we do not yet know what the ultimate impact of COVID-19 might be on our future activities was likely to exacerbate the level of anxiety, and uncertainty being experienced by our employees and their families. This in turn would have impacted morale and productivity at a critical time when our employees are providing essential services and support to customers. It would also create lasting negative impacts on the culture for little or no known benefit at that point in time.
- Reducing the capital program was not pursued for the economic and financial reasons stated earlier in this correspondence
- It is probable that if we had proceeded with redundancies for any employees experiencing reduced workloads in this early period, we would subsequently have needed to replace those employees with consultants or contractors once we are through the worst of COVID-19. The cost of redundancies, recruitment and retraining for highly specialised roles was deemed to significantly outweigh any perceived benefit. The outcome to date is that the few employees that did initially experience reduced workloads were able to be reassigned to productive work.
- We have obligations under our Enterprise Agreement which make wage freezes for the majority of employees very difficult to implement
- Implementing forced leave is not possible under our current Enterprise Agreement and was not needed at the time as there was no shortage of tasks to be undertaken.

While we can see no case for pursuing the above options at this point in time, they are possibilities if the COVID-19 impact ultimately moves closer to that envisaged in Scenario 3. Were Scenario 3 to eventuate, we would consult with potentially impacted employees and their representatives to ensure we have considered the full range of options available to us and ensure that each decision makes commercial sense, is legal and takes into account any longer term impacts on the ability of TasWater to deliver its core services to customers while meeting regulatory obligations.

In addition to seeking to reduce our discretionary expenditure, we are closely monitoring the impacts of COVID-19 on employee productivity and morale, both of which are inextricably linked. This is particularly the case when the majority of employees are now either working from home or as with the field staff, starting from home.

To date we are maintaining our key operational customer service standards at the same level experienced prior to COVID-19. While this does not guarantee that productivity has not dropped off, the maintenance of these service standards in such a challenging and new environment is encouraging. I would also note that personal leave (e.g. sick leave and carer's leave) is at an all time low with staff surveys indicating high morale and personal productivity levels. We will continue to maintain oversight of both morale and productivity and look to further refine our means of

measuring productivity to ensure our assessment of productivity relies less on anecdotal data and more on empirical data.

10) What assurances can the Board provide the Owners about a resumption and magnitude of annual dividends as per the Corporate Plan and when this is likely to occur? (Break O'Day Council Q10 and Brighton Council Q8)

While we understand Owner Councils' need for such assurances, given the continuing uncertainty about a number of factors we are not currently in a position to identify when we will be able to resume the payment of dividends, or the magnitude of those payments.

However we are focused on ensuring that the business returns to a position where dividend payments can be reinstated as soon as possible. We will be in a much better position to assess whether dividends can be instated once the end of year accounts are approved in August 2020.

Our path toward reinstating dividends will be outlined in our revised Corporate Plan FY2021-25, which is anticipated to be provided to Owners later this year in advance of an Owners' Representatives Group General Meeting to be scheduled in or about September 2020.

11) Why are TasWater's concessions to customers being passed on to Council ratepayers? Is the total cancellation of dividends an equitable solution? (Response to key theme in West Tamar correspondence)

It was never TasWater's intent to simply pass on the impacts of the concessions to Councils, however we can see why it might be construed that way by some. As advised above, the decision not to pay dividends was based on more than just the concessions i.e. impact of COVID-19 on developer revenue, predicted bad debts and hardship and the level of broader economic and financial uncertainty prevailing at the time. As stated earlier we immediately stopped expenditure where it was possible (i.e. strategic initiatives and various discretionary operational expenditure). Management are currently finalising a revised budget targeting our discretionary expenditure aimed at further reducing the financial impacts of COVID-19 while being cognisant of the impacts of deferred and cancelled expenditure on customer service level and key stakeholder expectations.

The decision to provide the concessions to customers was made very early in the period as COVID-19 unfolded and was in response to a request from the government. As advised earlier in this correspondence, if we had chosen not to support the government's request, it would likely have been forced on us resulting in significant reputational damage for TasWater and Councils.

At the time this decision was made, we were still assessing the potential medium and long term financial impacts of COVID-19 and possible financial scenarios. The extent to which we may subsequently need to suspend dividends was unknown at this time and this view was shared with Owners in the first information session.

It is our intention to reinstate dividend payments at the earliest possible opportunity.

12) If the Crown's Owner's Representative did not attend the online meeting of Owner's Representatives, was this significant? (Question from West Tamar Council)

The question of attendance of the Crown's Owner's Representative at the Owner Representative meeting is best responded to by the Crown's Owner's Representative, however I would note the following:

- The Crown's Owner's Representative is also the Secretary of the Department of Treasury and Finance (Treasury Secretary) thereby making him the most senior finance bureaucrat in the state responsible for advising the Government and the Premier in a time of crisis

- The TasWater CEO and the Treasury Secretary were in regular contact during the early parts of the crisis period as is evidenced in the earlier timeline
- The Crown's Owner's Representative sent a senior member of Treasury to both Owners' information sessions
- At the request of the Crown's Owner's Representative, the CEO also personally briefed the Crown's Owner's Representative on key agenda items and outcomes from the information sessions.

Given the level of interaction between the CEO and Treasury Secretary/Crown's Owner's Representative and the economic role of the Treasury Secretary at the time of the crisis unfolding, we do not consider the personal non-attendance of the Crown's Owner's Representative to be significant.

We very much value the trust and support we receive from all Owners and wish to ensure that continues by being transparent in terms of our decision making and communicating with Owners on key matters at the earliest possible opportunity. I believe the approach we took to keeping all Owners informed as COVID-19 unfolded, the feedback session initiated prior to making the decision on a dividend freeze and the subsequent communications were clear demonstrations of that commitment.

I trust this correspondence answers each of the queries raised and look forward to a continuing positive and transparent relationship with our Owners.

Yours sincerely



Dr Stephen Gumley AO
Board Chairman

**ATTACHMENT 1 - INFORMATION SESSION ATTENDEES
AND CORRESPONDENCE RECIPIENTS**



Owner	Attended Session on 23 March	Received Correspondence 24 March	Received Correspondence 27 March	Attended Session on 28 April	Received Correspondence 1 May
Break O'Day Council - Owners Rep Mayor Mick Tucker	✓	✓	✓	✓	✓
Break O'Day Council - GM John Brown		✓	✓	✓	✓
Brighton Council - Owners Rep Mayor Tony Foster		✓	✓	✓	✓
Brighton Council - GM Ron Sanderson		✓	✓	✓	✓
Burnie City Council - Owners Rep Mayor Steve Kons	✓	✓	✓		✓
Burnie City Council - GM Andrew Wardlaw		✓	✓	✓	✓
Central Coast Council - Owners Rep Mayor Jan Bonde	✓	✓	✓	✓	✓
Central Coast Council - GM Sandra Ayton		✓	✓	✓	✓
Central Highlands Council - Owners Rep Mayor Jim Allwright	Cr Tony Bisdee representing	✓	✓		✓
Central Highlands Council - Mayor Loueen Triffitt		✓	✓		✓
Central Highlands Council - GM Lyn Eyles		✓	✓		✓
Circular Head Council - Owners Rep Mayor Darryl Quilliam	✓	✓	✓		✓
Circular Head Council - GM Scott Riley		✓	✓	✓	✓
Clarence City Council - Owners Rep Mayor Doug Chipman	✓	✓	✓	✓	✓
Clarence City Council - GM Ian Nelson	✓	✓	✓	✓	✓
Derwent Valley Council - Owners Rep Mayor Ben Shaw	✓	✓	✓	✓	✓
Derwent Valley Council - GM Greg Winton		✓	✓		
Derwent Valley Council - Bill Richardson				✓	✓
Devonport City Council - Owners Rep Mayor Annette Rockcliff	✓	✓	✓	✓	✓
Devonport City Council - GM Matthew Atkins	✓	✓	✓	✓	✓
Dorset Council - Owners Rep Mayor Greg Howard	✓	✓	✓	✓	✓
Dorset Council - GM Tim Watson		✓	✓		✓
Flinders Council - Owners Rep Councillor Peter Rhodes	✓	✓	✓		✓
Flinders Council - Mayor Annie Revie		✓	✓		✓
Flinders Council - GM Heidi Marshall		✓	✓		✓
George Town Council - Owners Rep Greg Kieser	✓	✓	✓		✓
George Town Council - Cheryl Hyde				✓	
Glamorgan Spring Bay Council - Owners Rep Councillor Annie Browning		✓	✓		✓
Glamorgan Spring Bay Council - Mayor Debbie Wisby		✓	✓		✓
Glamorgan Spring Bay Council - GM Chris Schroeder		✓	✓		✓
Glenorchy City Council - Owners Rep Mayor Kristie Johnson	✓	✓	✓	✓	✓
Glenorchy City Council - GM Tony McMullen		✓	✓	✓	✓
Hobart City Council - Owners Rep Councillor Will Coats	✓	✓	✓	✓	✓
Hobart City Council - Lord Mayor Councillor Anna Reynolds		✓	✓		✓
Hobart City Council - GM Nick Heath		✓	✓	✓	✓
Huon Valley Council - Owners Rep Mayor Bec Enders	✓	✓	✓	✓	✓
Huon Valley Council - GM Emilio Reale		✓	✓	✓	✓

Owner	Attended Session on 23 March	Received Correspondence 24 March	Received Correspondence 27 March	Attended Session on 28 April	Received Correspondence 1 May
Kentish Council - Owners Rep Mayor Tim Wilson		✓	✓	✓	✓
Kentish Council - Don Thwaites	✓				
King Island Council - Owners Rep Councillor Jim Cooper		✓	✓		✓
King Island Council - Mayor David Munday		✓	✓		✓
King Island Council - GM Greg Alomes		✓	✓		✓
King Island Council - Malcolm Stevens				✓	
Kingborough Council - Owners Rep Mayor Dean Winter		✓	✓	✓	✓
Kingborough Council - GM Gary Arnold		✓	✓	✓	✓
Latrobe Council - Owners Rep Mayor Peter Freshney	✓	✓	✓	✓	✓
Latrobe Council - GM Gerald Monson		✓	✓	✓	✓
Launceston City Council - Owners Rep Mayor Alderman Albert Van Zetten		✓	✓	✓	✓
Launceston City Council - GM Michael Stretton	✓	✓	✓		✓
Meander Valley Council - Owners Rep Mayor Wayne Johnston	✓	✓	✓	✓	✓
Meander Valley Council - GM John Jordan		✓	✓	✓	✓
Northern Midlands Council - Owners Rep Mayor Mary Knowles	✓	✓	✓	✓	✓
Northern Midlands Council - GM Des Jennings		✓	✓		✓
Sorell Council - Owners Rep Mayor Kerry Vincent	✓	✓	✓		✓
Sorell Council - GM Robert Higgins		✓	✓	✓	✓
Southern Midlands Council - Owners Rep Councillor Tony Bisdee	✓	✓	✓		✓
Southern Midlands Council - Mayor Alex Green		✓	✓		✓
Southern Midlands Council - GM Tim Kirkwood		✓	✓		✓
Tasman Council - Owners Rep Mayor Kelly Spaulding		✓	✓	✓	✓
Tasman Council - GM Kim Hossack		✓	✓	✓	✓
The Crown - Tony Ferrall		✓	✓		✓
The Crown - Jodi Willcox	✓			✓	
Waratah Wynyard Council - Owners Rep Mayor Robby Walsh	✓	✓	✓	✓	✓
Waratah Wynyard Council - GM Shane Crawford		✓	✓		✓
West Coast Council - Owners Rep Mayor Phil Vickers		✓	✓		✓
West Coast Council - GM David Midson	✓	✓	✓		✓
West Tamar Council - Owners Rep Councillor Richard Ireland		✓	✓	✓	✓
West Tamar Council - Mayor Christina Holmdahl		✓	✓	✓	✓
West Tamar Council - GM Rolph Vos		✓	✓	✓	✓

