

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Tuesday 4 December 2018

MEMBERS

Mr Finch
Ms Forrest (Chair)
Mr Gaffney
Ms Lovell (Deputy Chair)
Mr Valentine
Mr Willie

IN ATTENDANCE

Mr Doug Chipman, Chair, Owners Representative Group
Dr Stephen Gumley AO, Chairman
Mr Michael Brewster, CEO
Mr Dean Page, Chief Financial Officer
Ms Juliet Mercer, General Manager Corporate and Community Relations

The committee resumed at 3.04 p.m.

CHAIR (Ms Forrest) - Thanks for joining us on behalf of TasWater. We know you are not actually a state-owned company or a GBE, but there is still a requirement to report to parliament. It is all recorded on *Hansard* as part of our government business scrutiny process.

Welcome, Mike. I appreciate some of your team are very new. I would appreciate if you could introduce your team to the rest of us and for the purposes of *Hansard*, and then if you would like to make an opening statement. I know the chair of the Owners Representative Group has only been in the job for a few days and he might like to make a comment from the owners' perspective.

Mr BREWSTER - Thanks, Ruth. Stephen is our chairman and he will provide some opening comments on behalf of the corporation. I do not know if everyone has met Stephen

Gumley. Steve, like Doug, is a week or two in, but has been on the board for a number of months. Dean Page is our Chief Financial Officer and has been here a number of times. Doug, as you say was fortunate enough, I hope in your view, to be elected Chief Owners Representative last week. I might hand over to Stephen and his opening comments.

Dr GUMLEY - Thank you. I appreciate the opportunity to make a few comments. First of all, about the ownership and the memorandum of understanding between our local government owners and the state Government. We welcome the passing of the amended legislation that will allow the state to become a minority shareholder in TasWater, through its \$20 million per annum equity injection. This is going to facilitate lower prices for customers and an acceleration of our capital plan as per the MOU recently endorsed by all parties.

It is pleasing TasWater remains a corporation governed by an independent skilled board of directors with oversight provided by an independent regulator and our owner councils. There are multiple sources of accountability with this structure.

Under the MOU, we envisage with government support major projects such as the Macquarie Point Sewage Treatment Plant relocation and upgrades to the Launceston combined system and possibly Freycinet sewerage system to assist the tourist industry will proceed while retaining the principle that TasWater's customers only contribute to the extent they receive a benefit. We are also working with government to develop further alternatives to make it easier for tradewaste customers to meet their environmental and commercial obligations.

The key achievements for the last year are worth noting. Importantly, there was the removal of all public health alerts impacting water supplies. They were all removed by 31 August 2018, as per the promise of TasWater two years ago. A capital investment was achieved of \$164 million versus a target of \$135 million. This means the Tasmanian community is receiving infrastructure improvements earlier. Repeatable efficiency gains of \$10 million per annum against our budget of \$5 million mean we doubled the amount of efficiency gains last year. This level of savings has enabled the business to hold increases below the maximum allowable by the Tasmanian Economic Regulator. For financial results, there was net profit after tax of \$42.7 million versus a budget of \$35 million.

We might move on to our focus for the future. We will be continuing to listen and engage with local communities, key stakeholders and customers. While we will not always be able to please everyone, and we certainly won't, we are genuine in our efforts to make TasWater a trusted and respected corporation Tasmanians will be proud of. We know we still have a long way to go, but we also strongly believe we have the plan and the people to deliver. Keeping price increases as low as possible, while delivering on our promises, is a very important aim for us. While we have come a long way in a short time, it must not be forgotten there is much to be done in order to bring our infrastructure and services up to modern day standards. Historic underinvestment goes back many decades and we have a catch-up to do for the benefit of all Tasmanians.

Delivering on the accelerated capital program is a key effort we will be making over the next couple of years and into the next decade. We are introducing a new capital delivery model to facilitate an expanded program and the key challenges will be gaining access to resources, particularly contractors, to build the new infrastructure in the forecast boom in infrastructure investment happening across the whole country. We will be continually enhancing the consistency of experience for our customers, hopefully to the point where they do not feel they

need to call us or when they do their issues are dealt with efficiently and their experience is a positive one.

We are committed to improving our data records and the integrity of our data, which is an important part of better internal efficiencies and external customer satisfaction. We wish to help support development in the state through streamlined and simplified processes developed to suit industry. While this is not always entirely in our hands, we are consulting with end-users to improve their interactions with us. This includes trade waste, where we acknowledge many customers are still struggling with the cost of compliance. Thank you very much for listening and I welcome your questions.

CHAIR - Does the owners' representative, Mr Chipman, wish to say a few words?

Mr CHIPMAN - Thank you, Chair. Very briefly, we are delighted to see the legislation finalised for the state Government to come on board as a part-owner. I am not sure whether the bill has received royal assent but it must be very close.

CHAIR - It has been through both Houses. It is only a matter of a day or thereabouts. It only needs to be taken to Government House.

Mr CHIPMAN - We are also delighted to see the MOU struck in April last year has retained its integrity in what has been introduced into constitutional changes, the shareholders' letter of expectation and that the legislation has been consistent with the original MOU. We expect the Government will be coming on board as a part-owner commencing early next year. We are looking forward to establishing that relationship and some of the protocols set up in the MOU as to meeting schedules and so on. I am also happy to take any questions.

CHAIR - It has been a good year for TasWater and the results are pretty good. You wonder whether you need a threat of a major takeover to put people into gear. You might like to comment. Sometimes it takes a circuitous route. The profit before tax was up \$12 million, which is a good outcome. Most of it was explained by contributed assets. Can you tell us what contributed assets means in general terms? Dr Gumley, the chair, spoke about the efficiency gains to be made. How have they impacted on the improvement in your profitability?

Mr BREWSTER - Perhaps our CEO can talk to the contributed assets. We are both happy to respond to the productivity gains and how they benefit the business.

Mr PAGE - Contributed assets have largely been driven by the development we are seeing in the state as part of subdivisions, new housing estates and even commercial properties. There would be an element of water and sewer infrastructure constructed by the developer as part of that development and, under the legislation, they gift that to us and it becomes part of our asset base. In the way the accounting works, it is recognised as an income for the business. From a regulatory asset base, there is an offset that reflects the circumstances that TasWater has not paid for that infrastructure and can't earn a return on that infrastructure as part of the regulatory price build-up.

CHAIR - It impacts on the regulated price.

Mr PAGE - No, it doesn't. Through that mechanism the customer base is not being asked to give us a return on those assets. The accounting standards have it passed through our income but,

from a regulatory pricing perspective, customers are not funding that. It is the developer who has funded it up-front.

Mr VALENTINE - You still have to depreciate it.

Mr PAGE - There is an offset. From a regulatory asset base point of view, there is an offsetting entry that brings the effective net value of that asset to zero on the day it is taken into our regulated asset base. It is depreciated through the accounting books, but we have that mechanism under the regulatory price build-up. It is recognised that TasWater has not funded it and has not paid for the infrastructure, therefore it would be inappropriate for us to receive a return on that infrastructure through our prices.

Mr VALENTINE - You said you treated it as an income.

Mr PAGE - It is the difference between our statutory accounts and the accounting standards requirements, and then how the regulatory asset base is built up for the price submissions.

CHAIR - Moving onto the efficiency or productivity gains, can you speak to those?

Mr BREWSTER - We had four major projects, which Dean can add to, that drove 90 per cent of our efficiency gains. We have learned over the years that trying to do a long tail of things usually does not bring a lot. You try to focus. We earned significant gains from reducing the costs of the service delivery arm of our business. We had some earlier benchmarking of our retail costs, our costs to serve customers, compared to the mainland. We identified significant savings in that area through Dean's leadership. We did see some gains in centralised procurement. One of the things we are trying to do is improve our procurement practice. We didn't get as many as we expected. I am trying to think, the fourth project -

Mr PAGE - It was under water and sewer optimisation.

Mr BREWSTER - That is right. This one was less focused on efficiency gains, although we got them. It was more about how we more rapidly, and without large investment, improve the performance of our water and sewage plants. We had a budget of \$5 million. The board said at the start of the year that we should be able to manage it better than that. It set us a target of \$7.8 million, and \$10 million was delivered. The benefit of those savings is that pretty much all of them are flow-on. They flow on year-by-year even though they are externally reviewed for the board. The board asks for the savings to be reviewed externally before they count them.

Dr GUMLEY - Yes, they can be assumed to be permanent savings, they are not flash in the pan. It is reducing your cost base.

Mr BREWSTER - The importance of it is because our costs are, on the other side of it, climbing rapidly. If we didn't have these savings, we would have to be asking for further increases from our customers. If you recall, we received approval from the regulator to charge a 4.6 per cent increase. The board determined, given the extent of the savings, we would go with the 4.1 per cent increase. That was largely because we were able to offset some of the increases. We built a number of additional plants last year. We are upgrading the plants. All those compliance projects add, generally, more labour, more electricity and more chemicals. In order to hold our price path, we have had a continuous focus on taking costs at the same these costs are coming in, so our customers don't feel the pain of those increased costs.

CHAIR - The operating cashflow coming in from the savings gives you the money to use. Is that predominantly going back into capital expenditure? It seems you have ramped up your capital program.

Mr BREWSTER - We certainly have in the last year. The capital program is funded out of debt and operational earnings. Some of it has gone into retained earnings for the future, some of it has gone to fund a \$164 million program against the \$136 million we had envisaged. That is the way it works. We are looking out a lot further than this year. We are always looking to how we can generate more savings because the benefit is it reduces our debt, it reduces our interest payments and gives us more room for any future headwinds.

CHAIR - The Auditor-General commented that TasWater has done really well in exceeding its capital expenditure program, which is not the case with all government-owned businesses, acknowledging that you are not a government-owned business. In doing that, are there challenges associated with that, such as finding the expertise you need to undertake the work, workforce shortages and so on?

Mr BREWSTER - Would you like to start, Stephen, and I will fill in the detail, if you like? There is a significant change in the business.

Dr GUMLEY - It is nation-wide. The whole eastern seaboard of Australia is taking on infrastructure projects. There is a limited engineering supply pool in the country, so it is not only a Tasmanian issue. My biggest concern is how are we going to find enough skilled people to do all the projects we have. That is going to be a challenge.

CHAIR - That is without Macquarie Point, without the Launceston combined system and without Freycinet.

Dr GUMLEY - We are working on methods of doing that. Maybe the CEO can talk about the capital delivery office as one initiative to improve our performance and get those resources.

Mr BREWSTER - That is exactly right, Stephen. We started the journey in January 2017, when we undertook some enhancements to our delivery process. We realised the process we had then, which was built a couple of year before, needed to be further improved, but at the same time we could see we could reliably generate \$120 million to \$130 million and deliver it on time, most of the time on budget and have the outcomes you expect. We were always going to have a problem beyond that, and at the same time we had built up a model that said we were going to be spending somewhere between \$1.5 billion and \$1.5 billion and needed a more robust model.

In January-February we kicked off a new model, a capital delivery office, deliberately designed to enable us to rapidly expand our program and to give access to resources in the planning. This is where most of the issues are, in the planning and program management phase, so we can hit the \$180 million or more in the next two years and can accommodate the Macquarie Point and the Launceston combined systems into the future.

Stephen is absolutely right. At the same time, we have been doing this, the economy has been building nationally. There is a booming infrastructure demand and the big challenge for us will be getting enough contractors nationally to come in and do the work. That is where we see the challenge.

Mr WILLIE - Not paying a premium in that environment?

Mr BREWSTER - No. The risk is we pay a premium and that is a decision that has to be made at some point, Josh - you are right. We have already planned how much we intend to spend each year and have broken it down into projects. If we suddenly find we are all good to go, but all the projects are coming in 20 per cent over the original budget then, as a board and management team, we would go back and say, 'Okay, we are not going to throw money at this, do we need to step back?' We would have to do that with the owners and the Government and say, 'Do we step back and say, no, we will do a little less, because we can see in the longer term the prices might come back?' That will be the judgment to be made as we move through the process.

Dr GUMLEY - We might arrive at it better by having a programmatic approach to the projects. Given where TasWater has come from, owned by 29 councils, all the projects for the last 100 years have been done 29 different ways at least and there has been very little standardisation between projects.

Mr VALENTINE - It used to be 46.

Dr GUMLEY - Or 46 different ways. You know where I am coming from. One of the ways you reduce your overall costs for a program of projects is to have more standardisation. It means you only have to design something once and then do small modifications site by site. By having a longer strategic plan with a 20-year vision, we can start bringing thinking about standardisation in, how we do it and get 80 per cent of the design done only once for that class of assets. There are programmatic ways of trying to offset what we recognise are going to time and cost pressure from this infrastructure overload in Australia.

Mr WILLIE - On the capital delivery offers, is it minus any UGLs become involved in that? Was that a tender?

Mr BREWSTER - It was an open tender to the market. UGL and CPB and WSP, which is a consulting organisation, banded together. They were one of the parties that bid in the open tender and we recently nominated them as the preferred partner.

Mr WILLIE - Do they have a local presence in Tasmania?

Mr BREWSTER - All the parties will be located here. To be successful, you have to have boots on the ground. We were not prepared to take anyone that could not make it work. It is an alliance model, so they have to deliver out of our offices with our people.

Mr WILLIE - There will still be flying workers in under the arrangement?

Mr BREWSTER - No. Some people will be coming in and relocating to this state for the duration of the CDO. This is one of the benefits, to the extent we require specialists we would not normally procure and hire ourselves because it is very expensive when you only need them for a few hours. For planning purposes, we will be able to tap into them. Yes, like any other consulting expertise, if you can get it in Tasmania, that is great, and if you cannot, you get it from somewhere else and we will bring them down.

Mr WILLIE - I am interested in the bigger projects. You outlined your capital expenditure program but there are projects sitting outside of that like Macquarie Point, the Launceston stormwater, Freycinet and Southern Beaches. Can you give us an indication of the costs involved in those projects, the negotiations with government and how they are going to be funded outside your capital expenditure program?

Dr GUMLEY - We are consistent in saying the amount of any of those projects of benefit to our customers - for example, what would have been a routine upgrade at Macquarie Point - we would have spent the money anyway. It is probably fair and reasonable TasWater pays because it would have benefited our customers.

If additional money is to be spent on projects for the benefit of the state, but not necessarily TasWater customers, one would expect the money to come from other sources.

Mr WILLIE - So Macquarie Point is not an upgrade, it is one of those projects outside of your customer -

Dr GUMLEY - It would have been an upgrade. There would have been upgrades required in the next 10 years and so with the amount we might have upgraded, there might be a year or two shuffling around when you actually spend the money and that would not make sense because TasWater customers would have had to pay it anyway, and so you can do that piece of work.

Mr WILLIE - So you will take the upgrade costs out of that project and spend them across the customer base? Is that what you are saying?

Dr GUMLEY - No, I am saying what would have been the upgrade cost, or what we would have spent anyway, is what we can distribute across the customer base because it is the normal business.

Mr BREWSTER - That is entirely appropriate, Josh. The order of \$40 million to \$50 million is what we would have to contribute because that is what customers would have paid in the regulated asset base. That is what customer would have paid anyway. Beyond that, it is up to the Government and we are working with Treasury and the Government to finalise a funding model.

We are also working through the next stage of funding at the moment, the fund moving out of preliminary scoping into the planning stage, which is, again, with Treasury.

Launceston knows we will not be contributing anything on the Launceston combined system, but we are working closely with Launceston City Council and the Government on moving so we will likely take accountability for delivery of the solution. The funding, as the Government has acknowledged, will come from the federal announcement and their own funding.

In terms of Freycinet, at this stage it is too early to say. We are working with Government on doing a proper pre-feasibility study. Let us make sure we absolutely know what the key issues are, engage with the community, and then when we determine the benefit to existing customers, we will contribute in proportion and the Government will contribute the balance. We are working through each of these.

Southern beaches - there is a long way to go on southern beaches. Again, it is like Freycinet. You actually have to engage with the community and make sure they actually want it too. That one probably has not gone as far as the others, but certainly Freycinet, Macquarie Point and the combined system are all progressing at this time.

Mr WILLIE - Your capital delivery office will be involved in those projects and the capital expenditure grant?

Mr BREWSTER - That is the intent. Pretty much everything, bar the last stage of our small towns program, will go through the capital delivery office. That will be the last project we have done, so the whole intent is to have it all in a one-stop shop.

Mr WILLIE - The capital delivery office, is there a policy to try and upskill TasWater's workforce and eventually move away from the model? Is it more of a stop-gap measure because you have this big spending program ahead of you?

Dr GUMLEY - Yes, it is initially a four-year contract with a possible extension to year six, but the ANS, the TasWater people, will be able to take over, apart from specialists that might have to come from the mainland, in very small quantities. We want TasWater people upskilled to be able to do this work and deliver the capability for the state for the long term.

Mr WILLIE - What is your policy to engage apprentices and trainees within the organisation?

Mr BREWSTER - We do engage trainees and have over the years. We engaged three on the west coast and have engaged graduates. Have we gone far enough with it, Josh? No.

Mr WILLIE - You do not impose things on contractors either to have a certain percentage of their workforce?

Mr BREWSTER - No, not in the contracts I can recall, Josh.

One of the things we are doing right now, and is a fair question of all government businesses, is: Where are you going with your education? How do you make it sustainable into the future beyond the CDO, for example?

One of our big tasks for next year, and we are finally ready to do it, is a workforce strategic planning exercise where we actually sit back and say, 'What does the workforce of the future look like and what does that mean in terms of how many apprentices, how many engineers, how many scientists, how many accountants and so do we really need? What is the broader mix of our workforce?'. I do not think we were really in a position to do that a couple of years ago. We were more focussed on getting things moving and building the momentum, but we are finally in a position where I think we can do that.

Mr WILLIE - Will you work with local training providers to identify courses and things that may be needed?

Mr BREWSTER - We already are. We are already engaging with the university and TasTAFE, but it is early days again because if we have not done the strategic planning element of it, we are really not contributing as much as we should. Engineers Australia and I have personally

been involved as well, but it is very early days. We also have some of the larger local contractors involved, such as Stornoway.

Mr VALENTINE - With respect to your charging across the state, I am assuming that we are there with one flat charge across all sites in terms of water cost. Is that a correct assumption?

Mr BREWSTER - Very close. The legislation that formed the original corporations, the industry act and the corporations act, required us to reach uniform target tariffs across the state by 1 July 2020, the date that was set. We are still on the pathway for achieving 1 July 2022. Part of our price and service plan submission that came into effect from 1 July has us completing that transition. I think at the moment we are at 98 per cent plus in a number of water and sewerage customers that are at uniform prices across the state. We really are just dealing with the small tail of customers we are transitioning.

Mr VALENTINE - Your underlying profit is \$36.53 million, up by \$15.9 million, which you say it is due to higher charges and water usage. What is the split there? How much of it is attributed to higher charging and how much of it is attributed to higher water usage? I appreciate the two are a bit linked, but can you give us some understanding as to the -

Mr BREWSTER - If you have the annual report there, if we go to note 5 to the Financial statements, and unfortunately my version has dropped off the page numbers.

CHAIR - Mine too, so it is a bit hard, isn't it?

Mr VALENTINE - We don't know what page.

Mr BREWSTER - That is all right. Mike fortunately has a hard copy here with page numbers. On page 80, under note 5, we break the revenue and other income year-on-year into more detail than is provided in the summary-level financials. You can see there that the majority of our increase year on year is fixed charges and those contributed assets that we talked about earlier. Usage charges were about a \$6 million increase. That reflects that, from a pricing perspective or a cost perspective, the great majority of our operating costs are fixed. We have a very high proportion of our charges around the fixed costs to recover those fixed charges.

Mr VALENTINE - You slated \$140 million for projects, but it actually ended up that you spent \$164 million. What was the reason for the blowout there, or is it just extra projects that you have added in?

Mr PAGE - Not a blowout. We had the benefit in the last financial year of having a number of large projects that underpin the capital program - things like the 24glasses campaign that is about to address the public health alerts across the state. That was a large program that was run as a program and delivered the last 18 of those treatment plants in the financial year 2018. Also, we had the Kingborough consolidation strategy on the sewage treatment plants, which was eliminating three treatment plants and consolidating those at the Blackmans Bay site. It was a good news story. In some cases, particularly in the regional towns, they were ahead of the schedule that had been mapped out. Probably you will find that we spent more money in financial year 2018, but it means we are spending less than we would have anticipated a year-and-a-half ago in this financial year on that project. Some of it is bringing forward.

Mr VALENTINE - Talking about regional towns, if I might go to a specific issue that has occurred in Pioneer. You would be well aware of this one, Mike. It seems it has taken a long time to address and there are concerns about the health issues associated with it. We have been updated by individuals there who are concerned about it. I have a letter telling me that I can use Mr Tim Hanks's example and he is happy to be dealt with. He is concerned because he recently received a letter from TasWater saying -

Please find attached the report for test results taken in 2014 -

That is four years ago -

for lead in the paint of your roof at 58 Main Road, Pioneer.

Just to cut to the chase -

The sample with lead content is almost seven times the limit set out in 1997.

Quite clearly, this gentleman has been using water from that roof and yet, it is only in 2018 that they have advised that it is very significantly - seven times over - the limit of what it should be. Then there was an issue about repairing or replacing roofs at Pioneer, and this is only one. There is a number up there. Why has it taken so long? What is the status of those cases where roofs are supposed to be replaced or repaired? It seems to be taking so long and people are exposed to lead in the water.

Mr BREWSTER - First, they are not exposed to lead in the water. Our sampling demonstrates that.

CHAIR - Are you talking about recent sampling, Mike?

Mr BREWSTER - Yes. What happened was that we offered to anyone who wanted their roof tested back in 2014 the opportunity for us to determine the amount of lead in the paint, assuming it was a painted roof or Colorbond, against the Australian Standards.

Mr VALENTINE - Believe it or not, that is the roof.

Mr BREWSTER - Yes, I understand. We then said one of them came out significantly above the standard at that time. We had not installed the tanks and as only one came out ahead, I authorised, rightly or wrongly, that the roof be replaced at that time because we obviously did not have any tanks. We had no water, we had no water to test, and I thought I was doing the right thing.

As time passed by, as we had offered to everyone, we undertook water quality tests and it is lead in the water that matters and we have tested the roofs -

CHAIR - The roofs or the water off the roofs?

Mr BREWSTER - The water running off the roof into the gutters. We have tested the water - I should go back, sorry, there is a piece I missed. Going back to your point about Mr Hanks and I cannot recall the multiple or the exact comparison to the standard, but we

discovered off our own bat that there was an error in the readings and the customers had been incorrectly notified about six to eight months ago.

Mr VALENTINE - Mr Hanks?

Mr BREWSTER - No, all those customers we discovered. Six to eight months. We notified them that we had made an error. At that time, because we had the tanks, we were able to measure the amount of lead in water. Our position is and remains that if we determine the lead content in their tanks is greater than the standard, we will replace those roofs. I have written to them and we will also undertake a further test.

Mr VALENTINE - So you will replace the roofs, not coat them?

Mr BREWSTER - Whatever it ultimately takes. I think in the last case we replaced the roof. That is the position we have taken. The same argument was put to us, that the amount of lead in the sediments in the dam was very high. That is noted but the thing that counts is how much lead is in the actual water when you measured the water. That is the thing you work from.

Mr VALENTINE - Mr Hanks' issue is that he informed you the tank the sample was taken from had only recently been filled by a water carter. It wasn't representative of what was coming off his roof. He says there is no mention of that in the test results that came back. It could be that the roof is causing problems and issues.

Mr BREWSTER - We will re-sample; that is what we have said.

Mr VALENTINE - You will?

Mr BREWSTER - Yes. We have offered to re-sample.

Mr WILLIE - If we can walk through the time line a little before that. You undertook some tests on the town's water supply, and it came back that it was not potable and it had lead contamination. What year was that?

Mr BREWSTER - That might have been about 2011 or 2012.

Mr WILLIE - You undertook to supply tanks to 42 houses in the program, is that correct?

Mr BREWSTER - Correct.

Mr WILLIE - Since that time, have you tested all 42 of those properties, including the roof and paint base and the water quality of those 42 properties?

Mr BREWSTER - No. We tested all of the customers who asked for a test. That is what we offered to do and we provided the results of those tests. The key issue is and has been microbiological elements, *E. coli* in effect, in the tanks. We tested for that and at the request of those customers who wanted it, we also tested for lead on the roofs.

Mr WILLIE - Given the town's water supply was contaminated and it was TasWater's solution to supply the tanks, don't you think you have a duty of care to ensure the tanks fitted are producing potable water? You would need to test all 42 properties.

Mr BREWSTER - No. The solution we provided was to put in tanks, as you rightly say, and to ensure the water coming out of those tanks is safe. We didn't have to, but we offered to undertake those tests to the extent that if there is lead in the water above the Australian, we would replace that roof. This was a choice for customers. We sent it out and offered it to them. It was up to them whether they wanted the tests and that included the test of lead in the roof, the test for *E. coli* et cetera. That option is still available.

Mr WILLIE - Do you think that is appropriate, when TasWater fitted the tanks and is ultimately responsible for the new water supply, that you have only offered to undertake testing?

Mr BREWSTER - Yes. We provided the tanks. We provided the associated infrastructure and we are testing the water for those who want it to ensure that safe. Tanks are all around the state. It is not a new concept. We have given everyone brand new tanks and we have offered the testing. In addition, we have also provided a separate irrigation supply to those customers. Until a health issue is demonstrated, which we have not seen, and as long we are offering the service, which we are, I don't know where we end here, if we keep going.

Mr VALENTINE - With the Herrick, they put in a mini-system. Is that not an option for Pioneer, to make sure they can get potable water at the tap?

Mr BREWSTER - It is always an option, Rob. We could go back. This was all a timing issue. We were well advanced with Pioneer at the time we made the announcement about the 24 towns. A solution was pretty much there. If we were to go back, we would also have to ensure the customers want it. It is okay to say we will provide the water but, once they are off serviced land, they have to decide whether they want to pay for reticulated water to come back in. We would have to go back to the community. We would need to know the costs from our perspective and we would need to be convinced that is what the community ultimately wants. It was a point in time. From recollection, the majority of customers supported tanks. Admittedly, that was prior to the announcement of 24 towns.

Mr WILLIE - Has the Department of Health investigated Pioneer?

Mr BREWSTER - I have spoken to the head of the Department of Health, they are reviewing it and we welcome that. I don't know whether it is an investigation or where it is at. All I have been advised is they have been asked to look into it and we would recommend that is fine.

Mr GAFFNEY - How many other communities in the state have been offered a water tank? I am aware of a couple that have been offered water tanks. It is not uncommon for that to occur.

Mr BREWSTER - We have offered it to three, who took it up - Gormanston most recently, Mountain River in the south and Pioneer. The only differences were that we went over the meter and installed the tanks and guttering in Pioneer. It was quite a different model to the model used on the others.

Mr GAFFNEY - To provide the tank somewhere like Gormanston, it would be impossible to offer anything else other than that, with so few residents there. You couldn't do it, could you?

Mr BREWSTER - The cost would be significant but we went to the community and the community overwhelmingly voted for tanks in that case, I think it was 90 per cent.

CHAIR - They have plenty of rain in Gormanston.

Mr BREWSTER - Yes, their tanks are filled on a regular basis, I am sure.

Mr VALENTINE - Yes they do, probably over a day.

Mr VALENTINE - Is there a reason contracts were signed and sent off but not co-signed for three or four months?

Mr BREWSTER - No, I would have to take that on notice. I am happy to write to the committee with the answer but I don't have the detail on that.

Mr VALENTINE - If you wouldn't mind. It is a question that has been raised.

Mr GUMLES - Is this general or a one-off?

Mr VALENTINE - No, residents had signed a number of contracts and sent them off but they had not received co-signed contracts. They are saying that those contracts were not activated for three or four months.

Mr BREWSTER - We will take that on notice. That would be going back a couple of years, I imagine, but I am sure we can find it.

Mr VALENTINE - There is the response to letters that were sent. They are saying they have sent letters and it has been 41 days but they have not received a response. I think your standard might be a 21-day response.

Mr BREWSTER - No, our standard is 10 days. I am happy to take that on notice. It is possible but most unlikely. We are usually efficient with those things but we may have missed a couple. I am happy to take that on notice and respond.

Mr VALENTINE - They remain concerned they might be being exposed to contaminated water.

Mr BREWSTER - Rob, I hear what you are saying but there is no evidence to support that. If the Department of Health does a review, I think that is a good thing, but we see no evidence to support that assertion at the moment.

CHAIR - You are maintaining water quality where customers request it.

Mr BREWSTER - We do not have an obligation to because they are not on serviced land but we have offered it.

Mr VALENTINE - They are not on what?

Mr BREWSTER - They are not on serviced land. When you take a tank, part of taking a tank is that you are no longer a customer of TasWater in terms of drinking water. That is the deal.

We didn't have to do this but we chose to do it to try to assist customers and give them confidence in the tanks. Ultimately, they are responsible for their roofs and for the maintenance of the tanks. We installed new equipment and if we found there was a demonstrable health issue, we would deal with it. There is no doubt of that.

CHAIR - On water quality, Josh.

Mr WILLIE - It is linked to these questions. Mr Valentine is expressing frustration and that frustration has resulted in our committee being consulted on these issues.

One of the other issues was a real-time data monitoring of water quality across the state. Do you have an indication of when that will be implemented and a time line?

Mr BREWSTER - That was presented to the board last week, wasn't it, Stephen?

Dr GUMLEY - Yes, it was last Wednesday. We had a full presentation and I was impressed with what I saw. There are just a few software tweaks now and we will be putting it live before much longer.

Mr BREWSTER - We will be putting it live by the end of the year, which was our commitment.

Mr WILLIE - The end of this year?

Mr BREWSTER - Yes.

Mr GAFFNEY - In appendix 2, which is your 25 top capital projects for the next five years, it is interesting to note that of the 25, 21 have as their driver compliance - water treatment plants, sewage treatment plants, upgrades, supply and system. There is one renewal, one improvement and two growth. When I go to appendix 1, Strategic Risks, the compliance issue comes up in two of the risk ranking - that is, 13 to 15. Is the compliance here to comply with current standards where you have treatment plants that are below the Australian environmental standard and therefore the idea is to upgrade it by 2022-23 to that level?

Mr BREWSTER - For sewage, the EPA sets the compliance standards, and that is to bring those plants up to meet EPA standards and improve our overall compliance. For water, it is about ensuring that we continue to meet the Australian Drinking Water Guidelines, which is our primary obligation. Most of those projects in water now are very much about risk reduction to ensure we can continue to meet compliance. On water, we are 100 per cent compliant. On sewage we are about 88 per cent.

Mr GAFFNEY - With the organisational risks, the second dot point where there are five strategic risks, which is a third-party risk, if somewhere somebody makes a decision to change the guidelines or the standards again, you have to respond to that. At this stage, all your compliance issues are at the standard that there is now, but that is not to say that over the next four or five years that standard could change and then that is a risk you cannot really take.

The other one is the two growth ones. One is the Kingborough Sewerage Strategy - Treatment and Network and that looks like it is \$18.2 million over the next five years. The other

growth one is the Port Sorell one. I am interested in the Port Sorell one, but I am interested in Kingston as well.

With the Port Sorell one, \$1.7 million for this financial year, that is to improve the reservoir and the network. Is the \$4.3 million in 2021-22 for the linkage from Port Sorell to Devonport? Are you still continuing that project? It was banded about some years ago that being the upgrade to connect Port Sorell to Devonport. Is that what it is for?

Mr BREWSTER - I would have to take that question on notice and come back to you. I believe you are correct, but I would want to be certain. I suspect when I write back, you will find you are correct, but I want to be 100 per cent certain it is because we do not invest too early. We invest in stages to minimise the impact on our customers. I suspect that is exactly what we are doing at the moment. I have been to visit the reticulation upgrades and the reservoir upgrades. When we get further growth, we will start the next project, to be just in front of it and that is when I think this section stage comes in, doesn't it, Dean?

Mr PAGE - Yes.

Mr GAFFNEY - For other members' benefits, because Port Sorell is a growth area, what they had there originally was the open sewage ponds at the end of Hawley. It now does not cater for the growth of the area so they have to do something to improve it.

I would like to have a chat with you, Mike, afterwards about other opportunities there for bike paths and gas to be connected from the airport. When you are doing that infrastructure and negotiating with all the landowners, there are three or four other types of infrastructure that could assist and be put down at the same time. I would like to have a chat.

CHAIR - Is that a private meeting another time, Mr Gaffney?

Mr GAFFNEY - No, I will talk to him later.

Mr BREWSTER - I am happy to have a conversation outside the meeting.

Mr GAFFNEY - I suppose the question is, when you do this sort of planning, what other groups do you have involved with it so that we are not reinventing the wheel, so we are saving funds through three or four other programs that might want to go ahead and use that same corridor?

Mr VALENTINE - Like telecommunications.

Mr GAFFNEY - Yes, that sort of thing.

Mr BREWSTER - We are getting a lot better - I will not say we are perfect - but we are getting a lot better at consultation. We have all our business cases identify the key stakeholders upfront and what their interest might be. I would expect that we would pick it up, but I cannot be certain. That is the path we take. We would identify the council as a stakeholder, potentially, and if we knew there was potential for a bike path, we would talk to them about that. We would need to engage with the council anyhow if we are making major changes to the local infrastructure.

I am more than happy to have a chat offsite. On the gas side, we were talking to Tas Gas as well about opportunities.

Mr GAFFNEY - On the financial side of it, it helps your bottom line if you have other groups involved contributing in that space as well. That is where I am going.

Mr FINCH - I want to talk about our people and culture, which is in the annual report. I found it very bureaucratic in your description of the people and your photos of people who were all about high-end achievers, leaders, university graduates, and people like that. I want to drill down a bit into the workforce that you have, the people on the ground doing the hard slog, digging the trenches, laying the pipes, doing all that sort of work. There is no mention of that here. If there is, you might point that out to me.

First, Mr Brewster, can you tell me how many employees you actually have in TasWater at this time?

Mr BREWSTER - At the end of 2017-18 we had 847 full-time equivalents.

Mr FINCH - Wow. Tell me, please, the female component of that? Do you have a percentage?

Mr BREWSTER - Yes, but I do not have it in front of me; it would be in the twenties, from recollection.

Mr FINCH - Okay. We have had Aurora here just now and we talked about employee culture and engagement. They had some KPIs that they were working towards in respect of it - and they were not reaching them; they fell very much short of it. I am wondering whether that is something that might come into your annual report. I realise the organisation is only about five years old and you have had plenty to concentrate on, but I am wondering about that culture and the people you have and the recognition of improvement of their workplace and work standards.

I see it is all about safety and zero harm. I am wondering about that personal satisfaction of working for TasWater and being a proud employee, knowing that they can develop and be highly regarded within the organisation and within the community.

Mr BREWSTER - First of all, I might go to the training and development. We recently held a recognition ceremony, as we do - sometimes twice a year, sometimes once a year - for all the people who graduate. When I say graduate - certificate III in water operations, business systems, right through to a Masters in Project Management - they all get recognised together. I think a year ago we had 80 people and we co-fund that, so we get some funding from TasTAFE and other learning providers. We fund the balance. Whilst I understand what you are saying, I think we do very much recognise all elements and support everyone in the business to improve their opportunities by increased learning. Only two years ago, we also won the state award for learning and development. From learning and development, we are investing heavily, because we know that is the future.

Kerry, your question around digging the trenches, we do not necessarily do a massive amount of that so much. We do repairs, et cetera, but the new work is generally put out to contractors, which is probably why you do not see as much of it.

We will go back and take your comment on board. We certainly do not want to imply there is some sort of elitist sense in our organisation; that is absolutely not where we are. We are about giving people opportunity to grow in the organisation, wherever they are from.

On your question about our measures around people and culture, yes, we did start with the leaders. We started with me and the executive team three years ago because, if you do not get the leadership to work properly, do not have the right culture or the right people, you are not going anywhere, and cannot send the right signals to your people. We then cascaded down to the next layer of leaders. The next stage for us is a statewide, whole-of-business culture survey using an international tool used by most of these organisations, the organisational styles inventory. We are committed to that. We were discussing this at today's executive team.

CHAIR - When do we expect the report to be available?

Mr BREWSTER - That is probably a year away. By the time we do the survey, et cetera, but we wanted to concentrate on leadership first, because leadership makes the most difference of the culture. If you do not get your values right, you do not get your leaders right. You can put all of your effort in to these others things, but nothing happens.

CHAIR - To your annual report and also relate to your corporate plan. In your annual report, some segment information, it is on page 78, but it is note 4, Operating Segments. I note sewerage net tax went up from \$10 million roughly to around \$29 million, whereas water went down from \$16 million down to \$13 million. Can you explain to me about what has happened here and how would the segments move over time and how you expect this to flush out? I want to keep a bit of levity in it.

Mr PAGE - There are a couple of factors at play with the operating segment note. If you went back a number of years, you would see the sewerage segment has had quite large jumps in revenue each year, or higher than the water segment, because when we were formed and as we worked through pricing service plan 1 and coming into pricing service plan 2, most of our water customers were above target charge. On 1 July 2015 they had their prices reduced straight to target tariffs, whereas most of our sewerage customers were under target charge. We might have a headline percentage increase but, because of the transition in principles, we found over the time our sewerage revenue jumped above those percentages year on year.

We are now at 98 per cent of the customer base on target tariff, so that factor will be become less and less across water and sewerage.

We amended some of the basis of how we allocate the costs for expenses, so, from an accounting perspective, as much as we can we allocate costs directly to the activity being undertaken. If it is some materials or services in relation to a sewerage treatment plant, our system will book those to that particular sewerage treatment plant. We then had some unallocated costs, corporate overheads and even network crews who work on water and sewerage assets. In the past we were allocating those on the basis of revenue. Our auditor suggested last year during the course of the annual audit we revisit the basis of that allocation, where the revenue was the most appropriate allocation basis. We did and now base it on assets and is a rebalance of the expenses. Those two factors have seen an adjustment to the net profits. It was not considered material from an audit perspective, so we have not restated the prior year's segment note to be on the same basis.

CHAIR - Okay. So currently water and sewerage assets are split with water assets being the larger half. Further on, how would the capex be split? While you are getting to that, with the respective backlogs require capex, when the backlog of capex is cleared, what will the split between water and sewerage assets be then?

Mr BREWSTER - I do not have the number in front of me, but I am happy to provide it to committee. Our focus in previous years has been on water, largely water, and sewerage second and is pretty much what our customers told us in Price and Service Plan 3.

We still have a fair bit of money in this current Price and Service Plan on water so that will still, from recollection, be the predominant spend, but will then change after this Price and Service Plan, as the sewerage projects ramp up and overtake it.

The backlog will never be fully cleared. That is important to understand. If we did, we would be over-investing in the asset. There is a certain amount of backlog you keep because fundamentally technology allows you to extend the life of a lot of assets. We are knocking the backlog down but we will never go to zero and it would not be best practice to do so.

CHAIR - The latest corporate plan on your website 2019-2023 and the financial forecast started on page 23 of that says a modest increase in profits after tax from \$37 million to \$47 million but this year, 2018 it was \$42.6 million. The question is, are the budgets too low or is this an aberration? If it is, what is the explanation?

You might like to also comment on the Government's contribution of \$20 million. What impact that will have. How that will change things, if it does?

Mr PAGE - There is a note to be made in relation to the 2018 accounts and disclosed in notes to the accounts. There was an adjustment we had to make to our depreciation this year, because with the ramp-up of the large capital program, built up our capital work in progress as we capitalised those assets. In some cases, there are some prior year depreciation, because not all of those assets were put into service in the current financial year. That adjustment saw a reduction in the financial year 2017 result and an increase in the financial year 2018 over and above what we would have predicted in our corporate plan at the time.

CHAIR - That basically accounts for that, or are there other factors?

Mr PAGE - That is why I said it looks odd we have \$43 million bottom line result this year, but anticipating reducing our profitability next year. We have now dealt with the issue and we should see we are meeting those targets.

As we go further there might appear quite modest increases, but a point Mike made earlier, the large capital program and the new treatment plants we are putting into service and the assets we are building, do come with a flow-through impact on our op-ex. You will see our operating costs continue to rise in proportion to the percentages to the revenue, as those new capital projects come into service. Off-setting that we continue to have focus on productivity to try and minimise the impact.

CHAIR - When the Government complete take-over was being talked about, one of the scenarios they were promoting in that threat of it being taken over had an interest cover below one, which would be a bit of a scary place to be potentially for most organisations. I notice in

your forecast here, the lowest you have is 3.2 per cent. Is this where we can generally expect it to be? That is in the out-years nearer to 2023.

Mr PAGE - That is on the five-year basis. We do have a long-term strategic plan and financial forecast out for the 20 years of the long-term strategic plan period. That sees us levelling out at about two-times cover around about year 10 and holding through the second 10-year period.

That is a factor of the capital program, largely in the first 10 years, being funded by borrowings or the excess of the capital program over operating cashflows. We have taken an approach of doing that in a measured way that allows us to move down to that two-times interest cover over time.

The alternative scenarios put forward at the time of the takeover discussion were around getting to that peak debt position much sooner, three or four years rather than the eight or nine years our financial modelling did it under, which is all doable. You take on extra interest costs and the compounding impact of those extra interest costs. The other thing with doing that much capital sooner is you also get the flow-through of depreciation once the assets are on your balance sheet. The approach management and the board have taken is a more measured reduction to two-times interest cover that allows us to hold that interest cover beyond the 10-year period and not end up at those low multiples you mentioned in your question.

Dr GUMLEY - We don't think it would be prudent to go much below the 2.0 per cent.

Mr VALENTINE - With respect to the completed assets you were talking about putting on your asset grid, they haven't always gone straight to the asset register, have they? That would affect this calculation.

Mr PAGE - In the five years of TasWater, we have lifted the capital program and it is fair to say we haven't had all of our processes well-developed at the back end. If you look at our 2018 financial year accounts, we have a work-in-progress balance of close to \$300 million or a tick over, of which we would say about \$100 million is completed projects we haven't finalised the capitalisation of and put in our balance sheet. That generates that issue if they went into service in 2018 financial year, but we don't put them in the balance sheet until the 2019 financial year, when there is a little bit of depreciation in relation to the prior year.

Mr WILLIE - Is that a breakdown between your civil construction area and your -

Mr PAGE - No, it is all at the back end. You could say in our early years at TasWater we were very focused on getting on with projects and the outcomes those projects were going to deliver. We were probably a bit quick to move onto the next project when one had finished. It isn't just around the capitalisation. In those early days, we were even updating our billing system, moving from a boil water alert and the applicable pricing for that and adjusting for the change when moving to full potable.

It is fair to say that we said the project was finished when the ribbon was cut and these things fell into abeyance. We have recognised that and now put a lot more in our project generation framework around when a project is finished and codified a checklist approach. It doesn't finish with the ribbon-cutting. It is once the billing system is updated, the assets are capitalised and when things like our geographic information system and the geospatial data is updated. We are

confident that we will deal with that backlog in the current financial year with appropriate resources and processes in place. We are now a lot more proficient at properly closing out a project.

CHAIR - Going back to your corporate plan, the last was in place before the MOU. Are the price caps in the MOU different from what is in the corporate plan, and if so, does it change that?

Mr PAGE - Yes, it does change that. When we produce our corporate plan for our owners' consideration in the first half of the next calendar year, the financial targets will reflect the MOU outcomes. I can't comment directly on what 2023 financial year will look like. We have been more focused in the MOU discussions around what the 10-year period to the 2026-27 financial year looks like. We will still be above that two-times interest cover for that period, still able to carry that interest cover through the second 10-year period and able to demonstrate or meet those long-term financial sustainability targets of the business.

Mr BREWSTER - It was all modelled on the way through. The fundamental issue will be what happens next year under our pricing service plan. If it had continued, we would have continued with a 4.1 per cent in the three-year period. As it stands, we will freeze prices next year and they will then be capped at 3.5 per cent until the end of the agreement period. The offset to that is the \$200 million we receive from the government. It leaves a little bit more capital. That is the trade-off. We are making customers end up with lower prices in the period. As result of it, we get \$200 million in cash.

CHAIR - The taxpayers are still putting the money in to fund it.

Mr BREWSTER - The government is putting in money, yes, and they raise their money from tax.

CHAIR - It has to come from somewhere.

Mr BREWSTER - We've still got to deliver all the projects. It is about the source.

CHAIR - It is about being open and transparent about how it all flows through.

Mr PAGE - At a high level, we are forgoing some revenue in the early years with the cost freeze next year and the capping compared to our current corporate plan. Offsetting that are the lower borrowings because of the \$20 million contribution and the interest costs that go on that money. When we come out, the profitability won't be massively different over those periods. In the 20-year outlook, it is roughly \$237 million of revenue forgone, or the customers aren't charged over the 20-year period, with that \$200 million offsetting equity injection from the Government.

Ms ARMITAGE - I have asked similar questions. Mike will remember I have had similar concerns with regard to tendering. Many of tendered jobs tend to go to the mainland. The latest information I have received is that TasWater had contracted out over \$1 billion to either one or more mainland firms, and for a Tasmanian firm to tender it had to have a turnover of over \$500 million. Can you tell me if that is correct?

Mr BREWSTER - No, we have not awarded a \$1 billion contract to anybody.

Ms ARMITAGE - No, no, not in one contract.

Mr BREWSTER - What we are talking about is the capital delivery office, which is the program management arm. What we are setting up is the program management capability for our organisation through the alliance.

Ms ARMITAGE - I am aware of the Tasmanian capital delivery office alliance, yes.

Mr BREWSTER - The reason I raise it, Rosemary, is that is what I assume you were talking about. That is the only thing that makes any sense from the perspective of the numbers you are quoting. Yes, we did set a reasonably high bar in terms of those who could bid because we are talking about oversight through our alliance of four years, averaging \$160 million to \$170 million per annum. We couldn't go with anyone who was not substantial. Having said that, without going into too much detail, Tasmanian partners were welcome to partner up. All of these ended up being consortiums and one Tasmanian company did partner up, albeit they weren't successful.

Ms ARMITAGE - This concern has been regularly raised with me and it is not the only one. I have raised it in many different forums. Mainland firms are getting the jobs. On many occasions, a local firm tenders but they don't get the job and it goes to a mainland firm, which then employs that very firm that did not get the original tender. The mainland firm is taking the cream off the top. I might go to the Department of Treasury and Finance assessment, which says -

It is expected that this additional employment will largely be sourced from within Tasmania. If TasWater is able to align its projects and its contracts over the five-year period to provide a sustained, high level of work for the major construction firms in the state this will encourage these firms to expand their workforce, including taking on more apprentices. It is expected the greater longer-term certainty for these businesses, the less TasWater will have to source firms from interstate for its infrastructure projects and programs.

I have been hearing it since TasWater was formed. It has not changed, the firms that come to me can't go to you because they are afraid they will get no business at all if they are seen as complaining. That is another serious issue. Can you confirm that these Tasmanians are still getting work, not simply being subcontracted from the mainland?

Mr BREWSTER - Tasmanian firms are getting work. We do track the percentage and I am happy to share the graphs that come to the board every month of the percentage of work that does go to Tasmanians. We cannot exclude mainland companies, and don't. What we do is, we evaluate all the tenders.

Ms ARMITAGE - But you are excluding Tasmanian companies?

Mr BREWSTER - No, Rosemary, that is not correct, I am not saying that. We are not excluding Tasmanian companies. What we are doing is we put our jobs out to public tender. We do not describe or define whether you have to be Tasmanian or mainland. We define the scope of the works and what attributes we are looking for, and how we would make our decision on employment. If a major contractor on the mainland wins it is because they have additional skills the other parties do not have, or they have some historical expertise the competitors do not have.

Having said that, where we can, we try to build expertise. An example is Stornoway, a Tasmanian firm, built all the southern plants in the regional towns. We looked at them and you would probably say they are right on the border and that is where we make the decision against other parties. We decided we needed to build expertise, and if it is close, we will generally go with a Tasmanian firm. If there is a significant difference, we will not.

The other thing I would add is when some of these bigger mainland firms come in, they do bring new expertise, because the industry is relatively new, with five years of major capital expenditure, compared to 30 years of under investment. You have to give the capability time so, yes, sometimes the locals bid to the major contractors and they gain expertise and they can use that on their CV next time through.

You are always going to have mainland contractors, and as the market heats up as it is, there is going to be more of them. Our intent is also, and this has come through in our CDO, that we must promote and support the growth of the local contracting market. When we come back out of it, we have people to deliver skills at the backend, and it is written into the contract for the capital delivery offers, and is a KPI.

Ms ARMITAGE - And \$1 billion though did go to a mainland firm?

Mr BREWSTER - No, \$1 billion did not go to a mainland firm.

Ms ARMITAGE - Two mainland firms?

Mr BREWSTER - No, it did not go to mainland firms, that is not correct.

Ms ARMITAGE - It is good to know, I want the facts.

Mr BREWSTER - I understand where you are coming from, Rosemary. Like everyone here, rightly you have the information you have, but a capital delivery, to be really clear what it is and what it is not, as this is where the confusion is coming in. The partners who win that in our alliance, they do not actually build things; we have not engaged them for that. The support we need is to manage the program and the work will then be let by the alliance partner and ourselves through the alliance to contractors. Whether they end up being mainland contractors, local contractors, has yet to be determined. It is a program management alliance because this is about the capacity to plan the works and get it out the door in a very rapid way.

The board and management were adamant from the start there would be no self-performance. This was not going to be a project management alliance. I would entirely understand your concern where you say, 'Right, we will get a partner in, here is a billion dollars' worth of work, you deliver it all, we will wipe our hands of it'. That is not what we are doing, because we have no skill at the back end.

Ms ARMITAGE - So I can have it right to take it back to the people who came to me, they have to have over \$500 million turnover? I know you are saying it could be a mainlander, it could be a local Tasmanian, but do you consider there would not be too many companies in Tasmania in that area that would have over \$500 million in turnover?

Mr BREWSTER - No, but they could have partnered and one did choose to partner. It is a substantial exercise of the management and letting of the contracts.

Ms ARMITAGE - So the alliance chose \$500 million? They were the ones that came up with that figure?

Mr BREWSTER - No, this was a public tender, where we called for expressions of interest in tender and, subsequently, tenders through the process. Anyone could bid but like in any contract, you, as an organisation, determine the financial capacity of the organisation needed to deliver that program of work.

We determined that was the size of the organisation we needed to support us in delivering this program. We would not be able to do it with a small organisation, be it the mainland or here. They did have the choice. As I said, some of them did, partnering up with locals.

Mr WILLIE - What is the total contract worth for the capital delivery over the four years?

Mr BREWSTER - If you asking about what their fee is, it depends on how many projects go through but the program itself, four years it would be -

Mr PAGE - About \$110 million is our estimate of the value of the contract, but managing a \$600 million capital program to be delivered over those four years.

Mr WILLIE - How many apprentices does TasWater have?

Mr BREWSTER - I will take that one on notice. We probably do not have many apprentices, but I will give you the trainee and apprentices split up because we tend to hire trainees more than apprentices these days because of the nature of the business, which is the Water and Sewerage Certificate III or IV they normally do.

Mr WILLIE - Rather than being grouped together, can I have the trainees and apprentices?

Mr BREWSTER - No, we will give you both.

Mr WILLIE - A local one: The Tolosa Dam in Glenorchy, how much notice did the council have from TasWater that you were going to decommission that dam?

Mr BREWSTER - It goes back before my time. Seven or eight years, I imagine.

Mr PAGE - A memorandum of understanding governs the decommissioning of that dam and that was executed by one of our predecessor firms, Southern Water. It is at least five years or five-and-a-half years.

Mr BREWSTER - I think it was 2011 or 2012. We are working with the council to help them through that process. At the moment we have the accountability for the dam.

Mr WILLIE - You still do?

Mr BREWSTER - We still do right now.

Mr WILLIE - Because you have drained it, haven't you?

Mr BREWSTER - We have had to drain it.

Mr WILLIE - Obviously because it is structurally unsound.

Mr BREWSTER - We drained it for two reasons: yes, it was not safe when it was full, also, we have constructed alternative water supplies, which are the two tanks over the road. We have lowered it to an interim safe level in agreement with the Dam Safety Regulator.

Mr WILLIE - I can tell you there is hardly anything left.

Mr BREWSTER - Yes. The risk you still have, Josh, is that in a day it can rain heavily, you get a lot of water flowing in and it can start to recharge. The risk is still there but not at the same level. We are carrying the risk on that dam. We have no use for the dam and we are working with the Glenorchy City Council, with Tony McMullen, to help them find a way through their master planning process and find a long-term solution for that area.

Mr WILLIE - I am reflecting a level of frustration in the community around Tolosa Park and having the dam in the state it is.

Mr BREWSTER - We understand that and so does the council. I cannot speak too much for the council, but they want to get the master planning right. They are engaging with the community to try to get something that brings the community with them. Those things take time.

We are in a position where we have had the dam for a long time and it is time we demolished it, so we are working with them to get through that as quickly as we can.

CHAIR - Moving from Tolosa to Waratah, I won't go into all the background detail of that but it is a slightly different issue, as I understand it. Have any decisions been made on the future of that dam from TasWater's perspective?

Mr BREWSTER - No. We have to complete the estimates. I have committed to completing the estimates. We will then go back and communicate. When I talk about the estimates, we wanted tighter estimates for the cost if we are to decommission it and for the cost if we were to repair it. That is the commitment we gave to the community.

We will also go back out to see if anyone is interested in taking over the dam and provide a bit more incentive - that is, the money that we would have invested in decommissioning - if that helps someone who wants to take it over.

Right now, our next step is to communicate with the community and tell them where we are at, and we will do that in due course.

CHAIR - Due course being what time frame?

Mr BREWSTER - I think the next month.

CHAIR - Thank you.

Mr VALENTINE - First, you have a new financial and asset management system. I am interested to know how that is performing and whether it is full bottle at the moment. With asset

depreciation, which you would load into the system, how do you do that? Do you do it through life adjustments on component failure? Is that how you handle the life of assets?

Mr BREWSTER - Do you want to do the life of assets? I will do the maximising and separate them out because we have not replaced the financial system.

Mr PAGE - When a project is completed and capitalised, we break it down into its lowest level possible. You might look at a water treatment plant and say it is one treatment plant, but we would look at it as a series of pumps and membranes and clarifiers.

Mr VALENTINE - Various classes of assets.

Mr PAGE - Exactly. We will take the cost base or apportion cost to each element and have a separate useful life for each of those elements, based on their design life in some cases or using standard manufacturer's expected useful lives.

If we were to have a failure of one of those pieces of equipment and we replaced it, we would recognise the new asset and the cost of that upon replacement, and we would write off any residual balance of the replaced asset when it is decommissioned or demolished.

Mr VALENTINE - I remember this from my Hobart City Council days that when they had a component failure - say, the expected life of that component might be 80 years and it fails at 60 years - that is put into the system and it adjusts the life of all of the components to a certain degree. That gives a better handle on exactly how long these assets are likely to last and therefore how much you are putting aside for depreciation. Do you use that system or do you use a different system for general component failure, such as a burst water main in the street or a valve or if one of your dams breaks?

Mr PAGE - It sounds like that is a bit more of a condition assessment that would be undertaken by our asset planning and asset strategy teams. When they undertake a condition assessment, if there is a significant change in the expected useful life, those adjustments would flow through to our asset register and adjust the depreciation appropriately.

In the case of a failure, generally, because we have taken the cost down to that lowest level or disaggregated the cost amongst all the assets, we are able to remove the specific asset from our register and replace it with the new asset.

Mr VALENTINE - Are the asset values you use fair values on assets?

Mr BREWSTER - We have two sets. The values that go into our regulatory asset base are different to what we depreciate in our statutory accounts. That is the way the system is set out.

Mr PAGE - The accounting books are based on fair values. Over the life of our predecessor corporations and TasWater, they have been adjusted on two occasions, based on an accounting value or a value-in-use test, specified under the Accounting Standards or available to us under the Accounting Standards. We have reduced the value of those assets twice. Those reductions do not flow through the regulatory asset books or the regulatory asset base.

Mr VALENTINE - What impact is a cap having on this?

Mr PAGE - The 3.5 per cent under the MOU? We are not at cost-reflective prices with our current pricing plans and even with pricing service plan 3, the Economic Regulator came out in their final report and confirmed that cost-reflective prices would be an 8 per cent rise or close to 8 per cent per annum increase and, as Mike mentioned earlier, we have requested a 4.6 per cent price increase as part of the plan and 4.1 per cent has been put into effect.

We were on a pathway and a transition to moving to cost-reflective prices. In our contemporaries and other jurisdictions they have, over their journeys, gone straight to those prices and resulted in double-digit price increases for customers, which has been an impost on the customer base. Through the former corporations and TasWater, we have taken that more gradual transition to manage that bill shock and that affordability issue for the customers in Tasmania. The MOU and the price outcomes there mean it will lengthen the time it will reach those full-cost reflective prices through our pricing.

Mr VALENTINE - Do you have any real idea how much you are losing through those unmetered connections or leakage from metered connections?

Mr PAGE - The small towns projects we have undertaken over the last few years have included an element of remediation of the reticulation networks. In doing those projects and looking at the reticulation networks and upgrading those, we have discovered a lot of unmetered connections. It has addressed a great number of them but it is probably folly to say we have no more unmetered connections. It is a journey of discovery. Sometimes you have to walk the line and look at all the tees off the main.

Mr VALENTINE - What percentage of use would have been unmetered?

Mr PAGE - We have had recent conversations in the business and with the board. The greater issue for us is the inconsistency between services on the ground that customers are availing themselves of and what is reflected in our billing systems. There are about 60 000 customers for whom we still need to verify and ratify the services being consumed.

Mr GAFFNEY - That is all of Hobart, Rob.

Mr PAGE - With that and experience over the five years of TasWater, there will be a number of cases in which the customer has a lower level of service, and refunds will be applicable, as well as customers who have a high level of service and will have higher costs. It is not all one-way.

CHAIR - I am interested in the owners' representative's perspective. You said you were pleased to see the legislation pass and the MOU effectively supported in legislation. How do you see the role of the owners' representative now? Is that likely to change? Do you believe there is enough scrutiny of the operation of the organisation? It is a bit of a rare beast that we as parliamentarians have the chance to scrutinise, normally it would be the owners' job.

Mr CHIPMAN - The owners have two interests. The first is that we have a healthy, profitable corporation providing efficient services to the customers. That is the most important thing. Second, the owners, because we are councils representing their local communities, are very keen to ensure our local communities are being serviced and receiving the product satisfactorily, efficiently and at as low a cost as possible. We have those two aspects and the letter of expectation reflects those two priorities. There are other subordinate priorities, such as

encouraging TasWater to encourage development within the state and there are a few other things that are more detailed. I am happy to table the shareholders' letter of expectation if that would help.

CHAIR - That would be helpful.

Mr CHIPMAN - It is available on the website. It is under the governance documents. We will have an ongoing interest in those points I have made. The shareholders obviously were intensely focused during the debate over ownership last year. There are a couple of reasons why we wanted to retain ownership. One is because we were really keen to ensure this double accountability; accountability through the councils to the local communities as well as accountability that was already in place through the GBEs. That extra level of accountability through the councils to the communities was something we really wanted to retain.

CHAIR - You are saying the involvement of government as a minor shareholder, not a position on the board, is an appropriate step and will it change the role of the owners?

Mr CHIPMAN - We think it is fantastic. There is no doubt having the state Government on board, with its influence and encouragement, is going to increase the funding into the business. This will also provide an avenue for federal funding into the business, through its lobbying and connections.

Not only is it going to be a benefit, but the commitment of the state Government will ensure TasWater is a good, healthy organisation providing services efficiently. Having them as a partner in this whole ownership model is a brilliant outcome.

CHAIR - It really was a good suggested outcome.

Mr CHIPMAN - It is a brilliant outcome.

Mr BREWSTER - I would add that in terms of oversight, we operate to the fullest extent possible. We operate as a public company, so we provide a quarterly report to all our owners, the CEO, the chairman and other executives present the report every quarter. If something does change, we write to the owners and let them all know. On top of this, we have the Economic Regulator and the other regulators providing oversight, particularly around our efficiency.

With the Government coming in, this has allowed from management and the board's perspective -

Dr GUMLEY - It might certainly improve communications.

CHAIR - Made them less hostile at least.

Mr BREWSTER - It is nice to be through that, but what it means is that we are all talking about how we improve the state together, in the room together, and this makes a difference.

Mr VALENTINE - It would be remiss of me not to ask about the inappropriate connections of stormwater and sewage and how Launceston is going to be addressed. That is a \$400 million effort, but there are some others across the state, certainly Hobart has some. What are you doing to detect these? Is there a program you have in place and how fast is it moving?

Mr BREWSTER - It is the inflow and infiltration program going since 2014. We do smoke and dye testing. That is putting dye down the pipes to see where the stormwater or the where the sewage flows and where it comes out. That helps.

We have made big inroads in Burnie courtesy of a federally funded program from the council's perspective. That enabled us to avoid a major upgrade, which saved money for our customers. St Helens is another example where we have made big inroads. We have not made as many inroads down south. It has been more difficult. It is the age-old issue of finding it, but the program has not stopped and is reported to our environmental and public health committee at least once or twice a year on progress.

Have we a long way to go? Yes, still, because it is very difficult to nail it all and largely you need the rain in the stormwater to be able to determine where it is coming from, but we have made good progress.

Mr VALENTINE - On the Davey Street spine, there are about 4300 houses and they do not know how many are inappropriately connected - so considerable work there.

Mr BREWSTER - Rosebery is the same, all those towns. You have to work your way through them. We cannot force people to disconnect either, unless we find they have illegally connected their stormwater into the sewer, so in some cases it is not straightforward.

Mr VALENTINE - It was done with the knowledge of councils way back.

Mr BREWSTER - We are not going there, Rob, not wise for us.

CHAIR - Well done, thanks, everyone and thanks to Doug Chipman coming at short notice. I appreciate it, and we will grill you more next time we have you here. You are still the owners' representative and we did not want to be too hard today.

The Committee adjourned 4.45 p.m.