

Taking Control of TasWater



- ✓ *Lower Prices*
- ✓ *No need for rate increase*
- ✓ *Water and Sewerage fixed sooner*
- ✓ *No privatisation*

Taking Control of TasWater

Why has the State Government decided to intervene in Tasmania's water and sewerage?

Tasmania's enviable reputation and indeed our brand for having a clean and safe environment is at risk because our water and sewerage system is not up to the standard it should be.

Despite substantial reform to the structure of the Tasmanian water and sewerage industry and the regulatory framework over the past decade, TasWater continues to face significant challenges in meeting environmental, public health, dam safety and water regulations under the stewardship of Tasmania's Councils.

Owned by Tasmania's 29 local Councils, TasWater has not made sufficient progress in meeting the objectives of earlier reforms.

Despite the obvious and urgent need for substantial investment in water and sewerage infrastructure, 25 towns remain on Boil Water or Do Not Consume alerts, only one of Tasmania's 78 Level Two sewerage plants is 100 per cent compliant with EPA discharge to waters limits and in recent years the rate of sewage overflows to the environment has been higher than seven times the national average.

The fact is local Councils have been paid significant returns during their period of ownership, receiving money from TasWater that has not been able to be reinvested in desperately needed upgrades to infrastructure.

While TasWater's Board did take the extraordinary step last year to override their local Council owners and reduce distributions to them to help increase spending on infrastructure, it's not enough and more needs to be done. Councils have not delivered on their fundamental duty to ensure TasWater delivers safe drinking water and sewerage services.

Clean, safe water and a first-world sewerage system are important for public health, our lifestyle, our brand and our economy.

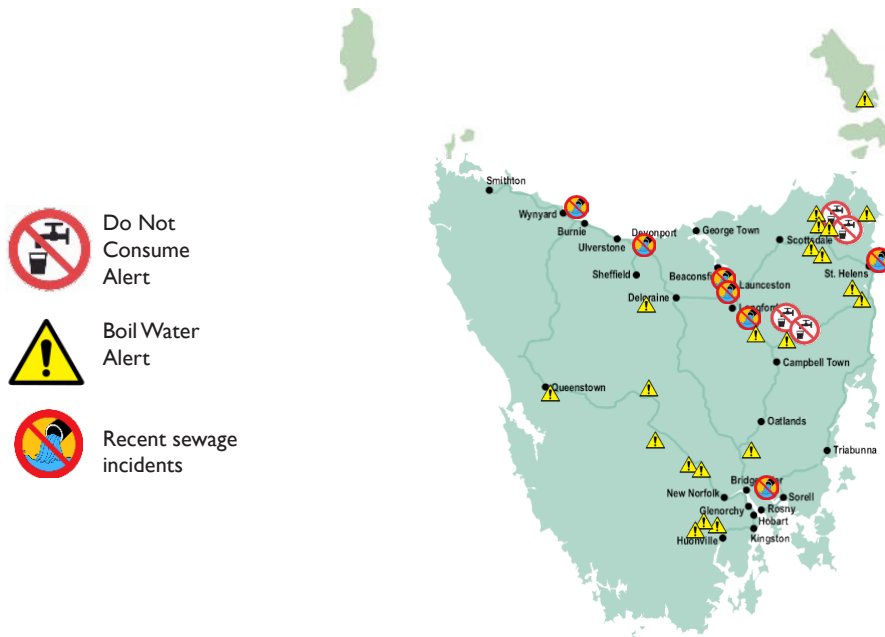
It's simply not good enough that visitors to our State need to check if tap water is safe to drink and the water is safe to swim in. It's not good enough for affected residents who have to fill plastic bottles from communal water tanks in order to have clean water in their homes.

The Government has repeatedly raised these concerns with the Local Council Owners over the last three years. The situation cannot be allowed to continue and the State Government has decided to take control of TasWater in order to fix it.

Tasmanians expect and deserve better.

Do Not Consume/Boil Water Notice

Tasmanian towns operating with Do Not Consume/Boil Water Notices or public health alerts at 3/3/17



Clear Benefits

LOWER PRICES

- Price increases for consumers will be lower.
- The Government will target future price increases to be within a 2.75 to 3.5 per cent range - well below the current level of 5 per cent projected by TasWater and its Council Owners.
- Over 6 years an average customer can expect to save up to \$548.

NO NEED FOR RATE INCREASES

- Councils will receive not one dollar less than the returns that they have been promised by TasWater up until 2024-25, after which, Councils will receive one half of the value of total returns from TasWater indefinitely.

WATER AND SEWERAGE FIXED SOONER

- On taking control of TasWater on 1 July next year, our plan is to bring forward and complete the remainder of the \$1.5 billion capital program over a 5 year period to ensure water and sewerage infrastructure is fixed faster.

NO CHANGE FOR EMPLOYEES

- No employees will lose their jobs as a result of the change in ownership.
- TasWater employees will be transferred to the new TasWater government business and their employment terms and conditions will be retained.

NO PRIVATISATION

- The legislation for the takeover of TasWater will contain explicit provisions to prevent a future privatisation of TasWater.

Options Considered

When the State Government met recently with all local Council TasWater owners to discuss accelerating the investment in water and sewerage services in Tasmania, five options were considered.

OPTIONS	PROS	CONS
Status Quo	<ul style="list-style-type: none"> No action required 	<ul style="list-style-type: none"> No improvement from current situation Not acceptable to State Government
Federal injection of funds	<ul style="list-style-type: none"> Significant Federal funding would accelerate expenditure on water and sewerage No further impost on local government 	<ul style="list-style-type: none"> Unrealistic given state of Federal Budget Current Federal election cycle Effectively just “kicks the can down the road”
Councils reduce returns (Dividends/ ITE/Guarantee Fees)	<ul style="list-style-type: none"> Accelerates capital expenditure on water and sewerage 	<ul style="list-style-type: none"> Councils lose revenue Some Councils can manage Others more difficult
Increase Prices	<ul style="list-style-type: none"> Accelerates capital expenditure on water and sewerage 	<ul style="list-style-type: none"> Consumers already facing 30 per cent increase over six years Many households already facing significant cost increases Not acceptable to State Government
Tasmanian Government intervention	<ul style="list-style-type: none"> Tasmanian Government greater capacity to contribute than Councils Accelerates capital expenditure on water and sewerage 	<ul style="list-style-type: none"> Budgetary impact on Tasmanian Government TasWater ownership structure complicates State Government intervention

Options Considered

The State Government made it clear to local Councils that neither the status quo option nor increasing prices were acceptable outcomes. Councils also indicated that they would like more to be done.

While the State Government will always argue for Tasmania's fair share of Federal funding, as no Australian Government funding has been forthcoming to date, this option is not realistic in the short term, and in effect just "kicks the can down the road". On this basis, this was also rejected as a viable option.

Councils rejected the option of reducing their TasWater returns to provide for an accelerated timeframe for investment in infrastructure.

The final option of State Government intervention is the only realistic way to address the challenge we face to bring Tasmania's water and sewerage infrastructure up to an acceptable level over a shorter timeframe.

Tasmanian Government Control of TasWater

"The State Government has decided that the best way to resolve Tasmania's inadequate water and sewerage infrastructure is to assume ownership and control over TasWater.

"This will facilitate a faster solution to the problem and resolve the long term underinvestment that has led to the current unsatisfactory situation."

The Treasurer, Hon Peter Gutwein MP

Key Benefits of State Government Ownership

The transfer of TasWater into State Government ownership will facilitate improved water and sewerage infrastructure and lower costs to Tasmanians. The key benefits are outlined below.

Substantial increase in investment in water and sewerage infrastructure

On taking control of TasWater on 1 July next year, our plan is to bring forward and complete the remainder of the \$1.5 billion capital program over a 5 year period which will allow TasWater to fix water and sewerage infrastructure earlier than under current local government ownership.

The State Government can achieve this increased expenditure without adversely impacting water and sewerage charges or Council rates, by using the underlying strength of its financial position.

TasWater has the capacity to take on more debt and under State ownership it will have a lower cost of borrowing. This means it can borrow

more for less and invest more to fix Tasmania's water and sewerage infrastructure sooner. In addition, the State will use its strong financial position to support TasWater should that be required.

As it stands at the moment, the Government's target of increased investment over five years can only begin once it assumes control on 1 July 2018. However, subject to Councils' agreement as the current owners of TasWater, work can begin immediately on the planning and scoping of the future infrastructure program. It is hoped that Councils will put the interests of Tasmanians before politics and agree that this work commence immediately.

Water and Sewerage prices will be lower under State Ownership

Upon assuming ownership, the State Government will set a price increase of 2.75% for the 2018-19 year and will target price increases of between 2.75% and 3.5% per annum in future years.

This is materially below the price increases projected by the Council Owners of around 5% over 6 years.

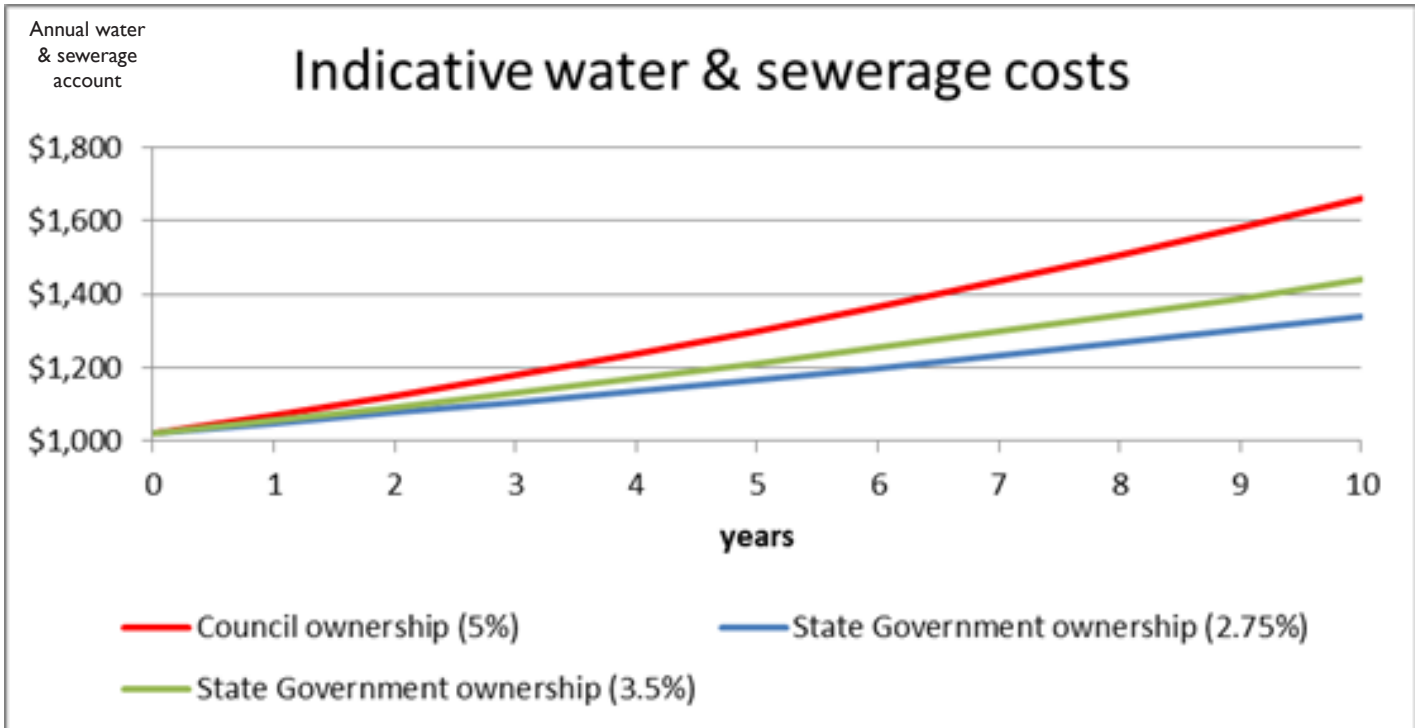
An average customer, over 6 years, could expect to save around \$548 at 2.75% and \$370 at 3.75%

compared to the 5% growth in prices forecast by the Council Owners.

The chart below shows the indicative price increases based on the current average water and sewerage bill of \$1,020 and applying average price increases of between 2.75%, 3.5% and 5.0%.

In addition, the State Government will continue to provide water and sewerage concessions to eligible pensioners, currently worth \$9 million per annum.

Key Benefits of State Government Ownership



Council rates will not be impacted by the transfer of ownership

The State Government will legislate to ensure that distributions continue to be provided to local government over the period to 2024-25 as already announced by TasWater.

They will receive \$30 million for 2016-17 and 2017-18 and for the seven year period following 1 July 2018 (the date on which the State Government expects to assume ownership)

Councils will continue to receive annual distributions of \$20 million per annum.

This is the same amount proposed by TasWater last year. Local government will not “receive one dollar less” over this period.

Following this period, local government will receive half of any future distributions from TasWater.

Councils will no longer own or be responsible for water and sewerage in Tasmania and yet they will still receive returns from TasWater. This is a risk-free return for local Councils in perpetuity.

The long timeframe over which Councils will receive a guaranteed return, followed by a 50% share of returns into the future, will ensure that Councils have adequate time to plan and will not need to increase rates as a result of the Government assuming control.

Summary of Key Matters

1. The Government intends to establish a new government business to provide water and sewerage services in Tasmania, through legislation to be introduced in the 2017 Spring session of Parliament and for the new business to commence operations on 1 July 2018;
2. We will transfer the operating business and all its employees to the new government business;
3. The current price determination will be extended to 30 June 2019 with the price increase set at 2.75% for customers on the target tariff;
4. From 1 July 2019, the Treasurer will determine water and sewerage prices with the Regulator providing guidance by continuing to conduct water and sewerage price investigations;
5. The Government will target future price increases to be within a 2.75% to 3.5% range;
6. The Regulator will remain responsible for setting customer service standards and the retention of all other regulation, including environmental, public health, dam safety and water;
7. A legislated obligation to provide Councils with payments of \$20 million per year from 2018-19 over a seven year period, to provide Councils with the same returns as announced by TasWater last year;
8. A commitment from the Government that it will receive no net returns from the entity over this period; and, following this period, Councils will receive one half of any returns from the entity in perpetuity;
9. On taking control of TasWater on 1 July next year, our plan is to bring forward and complete the remainder of the \$1.5 billion capital program over a 5 year period;
10. After the targeted investment phase, it is expected that investment levels will remain elevated as projects that currently sit outside of TasWater's 10 year plan are progressed;
11. No employees will lose their jobs as a result of the change in ownership. TasWater employees will be transferred to the new TasWater government business and their employment terms and conditions will be retained; and
12. The legislation for the takeover of TasWater will contain explicit provisions to prevent a future privatisation of TasWater.

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