

Tasmania in Transition

2015 Tasmanian Water and Sewerage Price Determination Investigation Submission

**Property Council of Australia
February 2015**

To be frank, the creation of TasWater was as a result of ageing and neglected water and sewerage infrastructure which failed to meet the standards required by everyday Tasmanians. Raw sewage, inadequate drinking water, failing pump stations and a general lack of regulatory compliance was the legacy of the local government sector who historically managed the infrastructure.

The issues that we face as a state with regard to utility provision should be viewed simply and directly – it's not good enough.

Salamanca, Battery Point, the Tamar River, the East Coast and the North East are all examples of communities experiencing either sewerage system malfunctions or drinking water issues which directly impact upon health, tourism and business opportunities.

Historically, too many council municipalities, too many pump stations, a dual system, ageing pipes and poor planning processes have delivered a disconnected spider web of infrastructure that neither delivers compliance nor creates confidence.

However, the streamlining of a unified TasWater should be viewed as a significant opportunity for our state with the development of world class infrastructure not simply a goal, but a priority.

Thank you for the opportunity to comment on the 2015 Tasmanian Water and Sewerage Price Determination Investigation. The Property Council of Australia wishes to make representation concerning the following matters:

- Regulatory compliance improvement;
- Structure of water and sewerage prices;
- Price changes; and the
- Headworks Holiday.

This submission focuses on the views of the Tasmanian Division of the Property Council of Australia.

The property and construction industries employ 16.7 per cent of Tasmania's workforce, are the state's largest single contributor to gross state product at 10.9 per cent, and pay over \$800 million in property-specific state and local taxes.

Tasmania is in transition.

The Property Council of Australia supports the utility providers in Tasmania and looks forward to working as reform partners with the State Government, the owners, the EPA, the Director of Public Health and the Economic Regulator. Ensuring that water and sewerage provision is considered an enabler rather than a regulatory basket case and an economic hand break on the development of businesses and the creation of jobs remains an advocacy priority.

More broadly, to achieve sustainable economic reform in Tasmania, urgent action is needed across the board, particularly in relation to:

- 1. Local Government;**
- 2. Planning;**
- 3. Taxation & Rates;**
- 4. Utilities;**
- 5. Red & Green Tape Reduction; and**
- 6. Population.**

The Property Council of Australia is ready and willing to discuss our collective views regarding strategies to improve the economic and social prosperity of the state.

Regulatory compliance improvement

It is both embarrassing and dangerous that 20 TasWater Waste Water Treatment Plants do not meet compliance standards. Further as at June 2014, only 4% of these plants complied with discharge limits.¹ The issues facing TasWater and the broader Tasmanian community can not be made any clearer.

Consequently, the Tasmanian Division of the Property Council of Australia continues to express dismay at TasWater paying dividends to 29 Councils across Tasmania.

By way of background, on 6 November 2013 the Board of TasWater approved the payment of an interim dividend of \$5,934,403 from 2013-14 estimated profits. This interim dividend was paid on 13 November 2013. Subsequently on 25 June 2014 the Board approved the payment of a further dividend of \$12,712,699 which was paid on 27 June 2014.

The current TasWater Corporate Plan indicates that \$45m will be paid in dividends over the next three years. The Property Council of Australia (TAS) firmly believes that the estimated profits should be re-invested into infrastructure development and not used to deliver “reward payments” to councils who failed to upkeep services over many years.

There exists a significant opportunity for TasWater to immediately invest additional funds in capital infrastructure in order to speed the process of improvement. Council dividends should be quarantined and combined with the aggregated revenue forecast from 2012/2013 to 2014/2015 of \$80.54 million, (\$28.98 million for 2012-13, \$17.14 million for 2013-14, and \$34.42 million 2014-15) and invested in infrastructure improvement of the highest priority. The Economic Regulator is of the opinion (“keen to test”) that this would not be of detriment to TasWater’s capital infrastructure program nor create price shocks to customers during the realisation of a target tariff.²

The Property Council of Australia also understands that the debt profile of TasWater is significantly lower than other like organisations around the country. Further, it is our belief that this is as a result of TasWater’s owners, the Councils preventing required borrowing from occurring, thus diminishing the opportunity to significantly improve infrastructure. If this is indeed the case, business decisions should be made by TasWater and not restricted by owners who aren’t held to account and who continually fail to contribute to an equity drive which is desperately needed.

Structure of water and sewerage prices

The Property Council of Australia supports the move by TasWater and the Economic Regulator to deliver a target tariff for water and sewerage prices.

¹P.21 & 23

[http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/15_52%20Chapter%203.PDF/\\$file/15_52%20Chapter%203.PDF](http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/15_52%20Chapter%203.PDF/$file/15_52%20Chapter%203.PDF)

² p.97

[http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/15_52%20Chapter%203.PDF/\\$file/15_52%20Chapter%203.PDF](http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/15_52%20Chapter%203.PDF/$file/15_52%20Chapter%203.PDF)

It is laughable that due to the abundance of council municipalities, customers with the same connection size and residences less than 1500 meters apart would be paying different prices for water and sewerage provision. Not only is that extremely difficult to understand and plainly unfair for home owners, it also creates a level of red tape for developers and investors which is an inhibitor to economic growth in Tasmania. This issue further supports the Property Council of Australia's push for significant structural reform of the local government sector in our state.

Price changes

The Property Council of Australia does not believe that TasWater will experience an inability to deliver capital infrastructure projects during the target tariff transition period. This view is based upon the aggregated revenue forecast and the opportunity that exists to quarantine Council dividends for a significant period of time until compliance is met.

Therefore, customers paying above the target tariff pricing structure should be remedied without hesitation. Those below should be supported to ensure that price shocks do not become a reality, particularly for vulnerable Tasmanians. This can be achieved via the proposed staging process where target tariff will be achieved for 100 per cent of customers by 1 July 2020 with an earlier target of 95 cent by 30 June 2018 considered desirable.

If TasWater, the Economic Regulator or the State Government remains concerned about the viability of the capital infrastructure program into the future, they should consider the debt profile of the organisation along with the irresponsible provision of dividends.

Headworks Holiday

From our recent interactions we understand the "Headworks Holiday" has seen a doubling in permits and labour for TasWater and the State Government should be congratulated for this initiative.

It should be noted however that we are of the understanding that the \$5 million provided to TasWater to cover the costs of this initiative is inadequate and the organisation is left to find the additional savings via efficiencies in the operational budget. And while we remain extremely supportive of the Headworks Holiday, it is important that the State Government and TasWater remain cognisant of the implications.

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Key facts about the Tasmanian property sector

The Property Council

The Property Council represents the biggest private sector industry in Tasmania, which is part of the \$600 billion Australian property industry.

Property Council members include major property owners in Tasmania, who operate across the sector in:

- all types of property activity – financing, funds management, development, ownership, and assets management;
- all asset classes – office; retail; residential development; industrial; tourism & leisure; aged care and retirement living; and infrastructure;
- every major region of Australia and various international markets; and
- the four quadrants of investment – public, private, equity, and debt.

Key facts about the Tasmanian property sector

- The property sector:
 - covers building and construction, the private and institutional investment community, and a suite of supporting professions and trades;
 - constitutes 16.7 per cent of the state's workforce – some 39,000 Tasmanians – are directly or indirectly employed by this sector (the largest private sector employer in the state);
 - contributes 10.9 per cent of Gross State Product or \$2.5 billion directly, and a further \$3.1 billion indirectly – the largest single contributor in Tasmania;
 - pays a further \$500 million in local government rates and fees annually;
 - pays approximately \$1 billion in property specific taxes annually to state and local government in Tasmania.
- The value of investment grade stock under management in Tasmania is approximately \$11.2 billion, a significant proportion of which is owned by superannuation funds that invest the retirement savings of Tasmania's workforce.
- The market value of foreign assets owned by Australians is \$50 billion.