

Water and Waste Water in Tasmania

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Thank you very much for inviting me here today to discuss the Government's review of Tasmania's water and sewerage sector.

Firstly I'd like to acknowledge my Parliamentary colleagues Will Hodgman, Tim Morris, Tanya [Retray-Wagner], Greg Hall, Ruth Forrest and Sue Smith. After a week in Parliament they were also stoics or masochists but I do appreciate their presence to take an interest in this subject. I'd also like to acknowledge Mike Gaffney, President of [LGat] and the other leading figures in local government and I do sincerely appreciate the opportunity to speak with you today to state the case for water and sewerage reform in Tasmania.

Firstly I think it's worth acknowledging that there is a significant degree of common ground in the water and sewerage debate. I believe that we can all agree that water is strategically important to Tasmania and that we need to avoid the crisis that have occurred elsewhere. Water is a finite resource that is critical to the sustainability of our communities. Because there are competing demands for water it must be managed in a transparent, efficient and sustainable manner to maximise the benefits to our community now and into the future. Figures released by the National Water Commission this week show that Tasmania has around 14% of Australia's total water resource. Our average annual water run off is almost twice that of the Murray Darling Basin. Tasmania has a potential significant competitive advantage over the rest of Australia. We simply cannot squander this valuable opportunity.

I believe that many stakeholders also agree that there are significant issues with the sector right now. We know there are state wide issues relating to future capital investment in the sector. In terms of asset values the reticulated water and sewerage sector has an estimated total asset replacement value of \$3.6b. On a written down basis the sector is worth about \$1.9b. This is comparable in scale to [Transcend] and Aurora combined but at present average returns in the sector across Tasmania are very low averaging about 3%. Returns at this level do not support the use of debt to fund long life assets. The result of this is that the sector is inherently prone to under investment and when investments are made they are likely to translate to price shocks for customers. This analysis is consistent with the initial independent due diligence findings from Pitt & Sherry. The estimated capital spending requirement over the next ten years is between \$650m and \$825m. This level of investment is greater than any past investment program in this sector and significant by any measure. On a regional basis the estimated capital requirement for the south of the state is between \$310 and \$405m. In the north the total is between \$190 and \$240m and in the north west it is between \$150 and \$185m. Financial returns from the sector need to be reinvested to bring the infrastructure up to and then maintained at a reasonable standard.

Given the investment required it is clear that water and sewerage businesses are not cash cows. Dividends need to be reinvested for many years to come.

We also know that there are state wide issues relating to current asset management practices. The asset management practices in the sector are below standard. We do not yet have an accurate state wide picture of where the assets are, what condition they are in and what their estimated life expectancy is. The initial due diligence found that approximately half the councils have not done asset condition assessments and approximately 70% do not have strategic asset management plans for their water and sewerage services. We also know that there are state wide issues relating to environmental outcomes. The due diligence found that there were low levels of historical compliance with the environmental standards for level two wastewater treatment plants. Approximately 50% of the 81 plants in Tasmania were not always in compliance with their license conditions. As we move to best practice environmental standards it is likely that a number of non compliant plants will be even higher. The estimated capital expenditure includes \$125m to bring these plants up to standard so they do comply with present license conditions.

The findings on sewerage and its potentially environmental impact were one of the more serious findings from the due diligence. The Government is now considering further analysis to look at the compliance at the smaller level one wastewater treatment plants.

We know that there are state wide issues relating to health risks. Apart from the possible health impacts from poor wastewater treatment we have all heard about the boiled water alerts. These effect nearly 5,000 Tasmanians directly and many other national and international tourists. It is simply not good enough that 23 water supply systems which include tourist towns like Swansea are on permanent boiled water alert. It impacts negatively on the health of these communities and it impacts negatively on Tasmania's brand.

And we know there are state wide issues relating to the under provision of services. There are approximately 15,000 properties on the urban fringes in Tasmania with a block size of less than 1500 square metres that are not currently connected to the reticulated sewerage network but could reasonably be expected to do so. It would cost \$135m to connect these properties to a reticulated system.

Of course all of these initial figures need to be further verified but it is clear that the investment task ahead is significant.

We also need to recognise that the estimated expenditure is likely to increase when the status of assets become clearer.

I think we can also agree that the current regulatory arrangements are insufficient and lack the elements necessary to support the achievements of a sustainable water and sewerage sector. It is clear that the current regulatory arrangements in Tasmania are light handed in comparison to those in other jurisdictions. There is a stark contrast when compared to other monopoly infrastructure such as energy where detailed investigations are undertaken by regulatory bodies and inclusive regulatory controls govern pricing and other behaviour. While the recent focus has been on structural models regulatory reform is also vitally important.

Achieving a sustainable water and sewerage sector simply cannot occur without having an appropriate and efficient legislative and regulatory framework. The framework must ensure that the roles and responsibilities of parties are clearly defined, that there is independent pricing and service oversight, that incentives and sanctions drive appropriate behaviour of managers of water and sewerage assets, that customers are protected, that assets are managed strategically, that appropriate returns on assets

have to be achieved in order to invest in the future, that the environment is protected and water quality maintained and that pricing is transparent and reflects the costs of delivering the service.

Tasmania deserves a best practice water and sewerage regulatory framework. Regulatory reform on a state wide basis needs to and will happen but I don't think the impact of this is well understood. It is inevitable that the water and sewerage sector is going to see significant change regardless of the structure of the industry but it will change for the better. I hope that we can agree that we need to work together to address these issues. The status quo is simply not an acceptable option. All the major political parties in Tasmania recognise this. Going forward appropriate and balanced stakeholder involvement is important to realising the benefits of reforms. If we do nothing how will the sector fund the level of investment required? How will we improve public health and environmental outcomes? How we will provide healthy and clean water and sewerage services to our communities? How we will reduce the impact of under investment on our economy and how we will address the skill shortage in the sector?

We want to better understand the issues on a state wide basis and how they effect you, your business and our communities but this is a time consuming process and I think we can all agree that the reform of water and sewerage is a complex issue. It has become very clear over the past nine months just how complex it is and there are no quick fixes.

The Ministerial Water and Sewerage Taskforce was established last September to ensure the long term sustainability of Tasmania's water resources, improve the quality of water and sewerage services in Tasmania, improve current water and sewerage infrastructure and planning, ensure that access to water and sewerage services is not a constraint on economic development and achieve greater efficiency and improved pricing signals. This is the Government's motivation. We are not motivated by financial returns, council amalgamation or a privatisation agenda. The reforms are about delivering the best possible environmental, public health and economic development outcomes for all Tasmanians.

The Ministerial Taskforce on Water and Sewerage and the project team have undertaken initial consultation with the local councils, bulk water authorities and a number of other stakeholder groups including the TCCI, the Property Council and the Tourism Council. I personally met with about twenty councils. The project team has met with twenty-eight of the twenty-nine councils and most councils put in a submission to the Taskforce in response to the discussion paper that was released publicly in December last year. In total we received sixty-two submissions in response to the discussion paper but we're only part of the way there in terms of considering potential structural and regulatory reform options including thinking about the issues, impacts and benefits of each model. We cannot be rushed into making these decisions. This project is too important. In my view the entire process could take three to five years. The work that needs to be undertaken is considerable. The Taskforce, its steering committee and the project team still have a significant amount of consultation to do. We need to understand the technical, financial, environmental, economic and social factors that will influence the Government's decision making. On the technical issues a technical reference group is currently being formed to provide advice to the Taskforce on technical aspects of water and sewerage reform. Local government has been asked to nominate a representative for this group because of its long history of service delivery in the water and sewerage sector. Other members of the group will be representatives from the bulk water authorities, the environment division of the Department of Tourism, Arts and the Environment, the water division of the Department of Primary Industries and Water, the public health division of the Department of Health and Human Services and an independent consultant technical advisor nominated by the steering committee.

The project team will shortly commence a second round of one on one meetings with all councils. The Government needs to better understand the potential financial implications on councils, an issue which is clearly of major concern. The project team will commence these discussions in the very near future.

The project team will also consult with councils on a regulatory change and will examine the regulatory objectives and high level principles relating to pricing and customer service standards. The consultation on regulatory reform will commence in the last quarter of this year and continue into 2008.

For my part I intend to meet with those councils I have not yet had the opportunity to see and also with the bulk water authorities and the Premier has committed to further consultation at the Premier's local government council however I acknowledge there has been criticism by local government over the consultation process. The process has not been perfect and I accept there is more we can do. I propose to address this concern by meeting with the LGat general management committee on a regular basis as a way of increasing our communication and consultation with local government.

Of course local government is not the only stakeholder involved in these reforms. The Australian Government clearly has a role to play in this process as well. I've had a number of discussions with Malcolm Turnbull on water and sewerage and the contribution the Australian Government can make to our reform process. The Commonwealth's input is obviously of importance to the final outcome. The reform we are attempting is significant and beyond that being considered by any state or territory. Ultimately we're reforming water and sewerage because it impacts on the quality of the lifestyle and well being of all Tasmanians.

There are many in the room here today who clearly have an interest in this important issue, engineers, tourism operators, environmentalists, scientists, planners, the business community, builders, architects, farmers and doctors. You all have a stake in this. There are enormous opportunities from increased investment in water and sewerage whether you're in the tourism sector, the farming sector or business generally. This is your issue too. The Government seeks your input. It is vital you get engaged in this debate and make your views known.

There are many other important issues to discuss. Obviously structural reform is also vital to the total reform solution. We must ensure that we have appropriate organisational, managerial and technical capabilities to effectively respond to the new regulatory environment including the balance sheet capacity to access and manage debt. I reiterate that the Government does not have a preferred structural model at this stage and that there are complex advantages and disadvantages associated with the two structural options, the single entity model and the enhanced regional entity model.

Other important issues that need to be addressed include understanding the impact on council finances from reform, maintaining a local community focus for the sector, council diseconomies of scale, the impact on the 500 employees within the sector, planning, addressing the skill shortage in the sector, headworks charges, water meters, setting state priorities for infrastructure development and the list goes on and on. As I said it's a very complex area and these are all very important issues.

What I can say is that the Government is very aware of these issues. There are consistent themes coming through our consultations. It is the intent of the Government to work through these issues with all stakeholders.

In summary there are a number of things we can agree on. We can agree that water is strategically important to Tasmania and that we need to avoid the crisis that have occurred elsewhere. We can agree that the water and sewerage sector is vital to Tasmania's economic, health and environmental outcomes. We can agree that a sustainable sector able to fund infrastructure renewal and augmentation and deliver improved levels of service to customers is something worth working towards. We can agree that there are significant issues with the sector now. We know that the current regulatory arrangements are insufficient and lack the elements necessary to support the achievements of a sustainable water and sewerage sector. We also believe that structural reform is needed to ensure service providers can use debt appropriately and attract and retain key technical and managerial personnel.

Although there are a number of complex issues to work through I am optimistic that through constructive dialogue and informed debate we can work through these issues and build a sustainable and robust water and sewerage sector for all Tasmanians. The opportunities from reform exist for us all.

I would like to leave you today with a quote from Albert Einstein and a question. The quote is “In the middle of difficulty lies opportunity”. The question is “Where is the opportunity in reform for you and for Tasmania”. Thank you very much.

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