

Water and Waste Water in Tasmania

Laurie Gleeson, Managing Director, Goulburn Valley Water Shepparton, Victoria

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Thank you Carol for that introduction and certainly thank you to CEDA for the invitation to come down here today and share a few brief thoughts with you on what's been a fairly long journey of water reform in Victoria.

When I first joined the water industry of Victoria some twenty-seven years ago we had some 370 statutory bodies associated with the delivery of water and sewerage. It's a structure that is inconceivable today I guess in terms of the water industry and it was primarily responsible obviously for the inefficiency and poor management of the water and sewerage services that were provided to country Victoria at that time.

Our structural reform program began in 1984 and as Kevin said Dr John Patterson left Hunter, he came down to Victoria actually and I can assure you that he was small in stature, he was an intellectual giant, he was a reformist zealot who's done a lot for the reform of bureaucracies around Australia and he was one tough little bastard; unfortunately we lost him a couple of years ago but certainly in '84 we commenced the journey of reform in Victoria and over the next ten years we got that 140 water authorities that came out of a government led public body reviews committee, we got that down to some 83 authorities through some natural attrition, organisations going broke and some sort of forced shot gun arrangements that took place at the time but certainly even when we were at that stage the 83 authorities certainly lacked the resources and expertise in many areas to undertake the role really of managing water in a commercial manner.

In 1994 or October 1993 we had the election of the Kennett government in Victoria and I think it's pretty well known that the state economy was in pretty bad shape at the time so the election of the Kennett government we saw a lot of reform and we certainly had a big bang approach to reform of the GBE's in Victoria and water was no exception and there were really three key drivers for the reform program at that time, one was to gain efficiency through amalgamations and introduction of commercial management principles into water utilities, provide incentives to customers through tariff reform, remove property based taxes from pricing of water and sewerage and encourage water conservation and cleaner production technologies and so forth within businesses and to separate the provision of water and sewerage from local government.

The amalgamation process was really about capturing economies of scale in both the delivery of services from an operational point of view and investment of capital expenditure going forward to address the inefficiencies in the system. We certainly did focus on improving efficiency and the quality

of water that was to be delivered to country Victoria and we were about creating organisations that had the capacity going forward to attract component commercial and technical management into the industry which was sadly lacking at that time, to substantially fund from internal resources to capital funding requirements of the businesses going forward and to reduce debt of course, that was a key focus on the Kennett government during that era and much of the investment over the last decade has been funded without debt but certainly going forward over the next decade there'll be substantial borrowing by water utilities of Victoria.

Commercial management, the mix of arrangements we had were replaced by board of directors appointed on the basis of their skills and Kevin has alluded to the sorts of skills that are necessary in the water utilities of today from a board of directors point of view. Their focus really was on the core business of urban and water sewerage services per se and they had to have the capability of operating under similar conditions to a commercial company in operating under Corporations Law style regimes. We have far greater director and company legal liabilities imposed upon us and we have operating contracts between the water utilities today and our state government who is the shareholder of the business.

The third most important reform change was there was no role for local government in water management going forward. Under the Kennett model the future commercial management approach to water was not considered compatible with the management of water functions by municipal councils. The cross subsidies that existed between the water and sewerage functions and the other local government activities were substantial and they were to be eliminated by this process and of course property evaluation based water rates were to be abolished which has led to massive reduction in cost to commercial businesses in particular across Victoria. The new regional water authority groupings were not going to be compatible with local government boundaries going forward.

The key considerations that government took on board in shaping the future structure of what our water corporation is today was a capacity to be commercially viable and at the time that was at \$10m minimum revenue. Today that probably be something around \$30m. Our boundaries were to a very large extent based on and still are based on water catchments and water systems, natural water systems. Communities of interest was a key consideration and I think it's obviously here today you get that feel it's going to be a key consideration I think here in Tasmania, to take on board those regional communities of interest. We had to have a capacity to meet higher operating standards and I think the same issues that applied in Victoria at the time I've heard the Minister talk about this morning, water quality, environmental performance and wastewater treatment plants, asset management, lack of asset management and lack of capacity to actually invest in fixing infrastructure requirements going forward. We also had to have the capacity to provide a commercial return to government as a shareholder by way of dividends and whilst we did pay some initial dividends in the early years it's been many years now since the regional water utilities in Victoria pay dividends to the state.

I should add that when the Victorian Government reformed the water industry of Victoria in terms of the country or what we call the regional water industry Mr Treasurer they did kick in \$390m to facilitate debt retirement to assist in the acceleration of our capital works program and my organisation got \$39m of that cake.

The structure today is thirteen regional water corporations, focus on the urban water industry. We have two large rural water corporations delivering irrigation services. We have Melbourne Water and three Melbourne retail water companies. I just intend to focus on the regional water industry in my presentation today.

Country Victoria, that's what it looks like and Goulburn Valley Water is about the third largest of those utilities in terms of business.

Very quickly a snapshot of our organisation, serving a population of about 120,000, some 53,000 connections, major food bowl industry of Australia, it is in the Goulburn Valley so we have a lot of food processing companies, about fifteen at the present time. We employ 180 people across the business and also utilise the services of a lot of engineering consultants and other service providers. We service 54 cities and towns through forty water supply systems and 26 wastewater treatment facilities across some seven municipalities in the region. Our business has a revenue of \$49m this current financial year and we plan to spend \$24m this financial year on capital infrastructure and over the next five years another \$130m on top of that.

What have been the benefits from the Victoria water industry reform? We certainly have an industry now that's very much focused on our core business, delivering water and wastewater infrastructure services. Paper use, water and sewerage tariffs have been introduced across the state with significant reductions in water consumption per se as a result of that and obviously significant benefits to business in particular. We have adopted a regional approach to water pricing in most utilities now in Victoria and at Goulburn Valley Water we have postage stamp pricing. That's been achieved over a number of years where everyone today regardless of what system they come out of pays the same price for their water and sewerage services.

The efficiency savings have been invested back into new infrastructure and they have been quite significant. They have been a major part of the capacity to internally fund a major part of our capital program. Of course there's been significant economies of scale in capital and operations that we've been able to capture. Initially those operational savings were around 30, 35% from [OPEX] in those early years and from a capital point of view we've certainly been able to rationalise the way infrastructure services going forward are being delivered by building quite a number of regional water treatment facilities and wastewater treatment facilities to service a number of cities and towns rather than individual side by side infrastructure that was occurring in the past.

There's been an unprecedented level of infrastructure investment in Victoria over the last eleven years. We've invested over \$2b in country Victoria alone and that has been substantially funded by water utilities with perhaps no more than 5% contribution from the state government through various investment programs and that still has a very low level of debt at the present time.

There's been substantial improvement in drinking water quality and effluent management right across the state. The small towns, small communities have been the big winners from the reform program. They've seen new infrastructure go in, they've seen their towns seweraged, they've seen filtered water supplied and they've seen their tariffs go down by as much as 50%.

We've also had the capacity to invest in new technology and as Kevin said [Scada?] systems and asset management systems are now a key part of the infrastructure that's necessary to operate a modern water utility company.

We also have the capacity to attract and retain quality management, technical and scientific capabilities and I think that's absolutely essential for the management of water going forward into the 21st century.

We've eliminated those cross subsidies from water to local government. We have skills based boards of directors in place and that provides a good mix of people to help drive the business. I think it's always a significant challenge to make sure you get the right people and the political process can sometimes be difficult to manage in that area.

We've certainly removed the infrastructure impediments to economic growth in most regions now of Victoria and certainly in the Goulburn Valley. We have much more efficient and better focused local

government units across Victoria and we have a great level of cooperation existing between local government and water corporations on planning issues and long term investment decisions.

From what I've heard this morning and what I've read previously coming down here I think the issues that you face today here in Tasmania are not unlike Victoria in the 90's, the issues of long term sustainability, the management of water resources, the financial viability of your businesses and the capacity to actually undertake that infrastructure investment that has quite clearly been identified as needing to be undertaken. I think tariff reform is an absolute priority in Tasmania from what I've heard and read, a significant need for improved drinking water quality and sewerage services in many parts of Tasmania which was the same in Victoria and there's need for better long term water and sewerage infrastructure planning and investment by utilities.

I think the lack of infrastructure is a constraint to the economic development of Tasmania as the Minister alluded to this morning and certainly the water quality situation can be a significant threat I think to Tasmania's major industry which is tourism and we had a very similar threat in the Goulburn Valley prior to the reform of the industry. Poor water quality was seen as a significant threat to our major food processing industries which are very heavily focused on exports and contamination of products from poor drinking water quality in that process would have had a significant detrimental impact on the capacity of those businesses to go forward.

We've talked about regulatory oversight, economic regulation, health and drinking water quality and environmental issues are certainly regulatory issues that need to be carefully considered. In Victoria we have a very strong EPA that enforces operating licenses for wastewater treatment plants. We have a drinking water quality regulator now. We've had the Safe Drinking Water Act introduced a couple of years ago that sets standards and compliance requirements for water utilities and we have an economic regulator called the Essential Services Commission who plays an important role but I would caution that in considering an economic regulator Mr Minister you have a very careful look at the Victorian model because it is very heavy handed, it's intrusive and it's very costly. It's debatable whether the benefits actually outweigh the costs provided in that regulatory oversight.

Future structures, will it be a regional model, will it be the state model, I think they're things for you to carefully consider and certainly the Minister has made it clear that the status quo is not an option going forward.

The ownership and governance of the assets, that was a similar debate that we had in Victoria but at the end of the day all of the assets belonged to the Crown. The reform wasn't going to take the assets away from anyone, they were still going to continue to service the people and really at the end of the day the key issue I think in the community's mind is the quality of the service they get, how well it's delivered and the actual cost are the things that matter most to our customers.

Issues to consider, fully integrated water and sewerage businesses. I think the Victorian regional model is a proven model and it may offer significant benefits to regional communities in Tasmania and to the Tasmanian economy. Your population is about half a million so it's not a lot of people to service in the overall context of water and sewerage services. I think the geographical spread of communities is an important issue for Tasmania to think about. They're very diverse, many are small towns and villages but you do have three large regional centres that regional authorities could be based on being Hobart, Launceston and the Devonport area. The region of community of interest as I've said is important. I think Tasmania the communities are probably very parochial. There's nothing wrong with that. We just need to recognise it going forward. In terms of commercial viability for a fully integrated water and sewerage business my view is I think you need something around 50,000 customers and minimum revenues about \$30m a year to be viable and what could be a significant challenge to the type of model you adopt here is that in relation to the ownership of these businesses it's servicing multiple

municipalities, continued ownership by local government may be an impediment to good governance and regional decision making given that each municipality is certainly in competition with each for regional growth and economic development.

I've mentioned the financial contribution for the state or the Feds I think will be critical to ensure or facilitate the unbundling of water functions into a regional model if that's the way you decide to go.

In conclusion a future model could be three regional water businesses, they could be state owned. I understand that the bulk water authorities which are jointly owned that could be a good model, it could be expanded. That will take a lot of goodwill I think from the current local government units to be able to work together to put in place a governance framework that ensures the independence in thinking and investment planning that would be necessary for those regional water utilities to have and as I said the government contribution I think is going to be important to the outcome.

I'll leave it there. Thank you.

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