Response to Infrastructure Tasmania's proposal to accelerate TasWater's capital investment plan

Introduction

The limited detail provided by the State Government's on its proposal to takeover TasWater is a recipe for financial disaster, and more of the water and sewerage problems TasWater was created to fix. Based on an analysis of Infrastructure Tasmania's *Accelerated infrastructure investment delivery in Tasmania's water and sewerage sector*, the accompanying review by pitt&sherry and the Department of Treasury's assessment, the State Government's plan is to borrow money to pay inflated prices for mainland contractors to rush through projects, without sound financial management.

The State Government has instructed Infrastructure Tasmania to consider "no financial constraints" to accelerating TasWater's capital program, without providing any financial modelling to show the impact on the state budget, the debt burden it will impose on TasWater's successor, or long-term impacts on customer prices and distributions to Councils.

The extent of the government's financial analysis is to copy TasWater's own plan, shift some of the funding to columns on the left, and to create yet another new water and sewerage body, when instead it could work with us and directly inject funding into TasWater.

Given Tasmania's size and limited labour pool, the State Government will need to attract mainland contractors to meet demand, with the likelihood that prices will increase in response to a sudden influx of cash. It is also suggested that work be outsourced to Entura and Tas Irrigation, both of which already work with TasWater, although neither has the specialist workforce with the skills to design and build drinking water and sewerage infrastructure. The State Government contends its experience and expertise in managing infrastructure will stand it in good stead to oversee the work of TasWater. However, the ongoing engineering and scientific logistics of delivering drinking water and protecting the environment are highly specialised disciplines, even more so in Tasmania given the mix of urban and rural populations in geographically dispersed and varied locations.

With very little detail available in the plan, the attached review from pitt&sherry finds it hard to endorse the State Government's approach. The best it can offer is a statement that the plan is "reasonable... given the amount of information provided", while warning the plan "is not without risk" and underscoring the importance of planning, approvals and scoping, "which takes significant effort and resource prior to delivering the works". This is hardly a ringing endorsement.

All of this, to cut TasWater's existing, fully funded and sustainable infrastructure plan from 10 years to seven years – not the halving to five years which is continually advertised by the State Government – when we're already one year in and delivering real results for Tasmanians right now with the removal of health alerts in small towns.

Planning and project delivery

Many of the 600-plus projects in the TasWater 10-year plan will each take several years to research the most appropriate solution, further time to design the works, to call for and consider tenders, and gain planning and environmental approvals. All this must occur before construction can begin. To speed up delivery without investing the appropriate time into due diligence will risk inferior solutions, poor outcomes and significant waste.

But there is no detail from the State Government on how it will ensure the availability of both the required time and necessary resources. Instead, the report is deliberately vague, and padded with phrases like "program objectives needing to be set", and needing a "fit for purpose procurement strategy".

Such bureaucratic jargon demonstrates that it is nothing more than a "plan to make a plan".

In contrast, TasWater's plan is already in place and delivering results. Our customer's bills are among the lowest in Australia and future price increases are modelled to be kept as low as possible while providing funding for a sustainable, long-term program of ongoing works.

It is clear that if the State Government wants to provide additional funding, it does not have to own TasWater to do so, unless it is focussed on political advantage rather than sustainable results

Financial modelling

The State Government has not provided any detailed economic modelling of the impacts of its proposal. There is no cost benefits analysis, no explanation or assessment of the impact of increased debt on the state budget, or modelling of an expected spike in construction over the coming years and the subsequent slump in activity expected in 2024.

In addition, the State Government offers unlimited funding for a hurried capital works program while claiming it can keep customer bills lower than TasWater's proposed pricing plan, but offers no information on exactly when, how and who will ultimately pay.

Without this detailed financial modelling, there can be no genuine understanding of how such debt will impact customers' prices beyond the next election cycle. We only have an assurance to keep prices down in the short term by deferring debt into the future.

This report leaves too many questions unanswered. What are the full costs and benefits of the State Government's proposal? How does it compare to other options? How will the costs be allocated across the beneficiaries? What are the intergenerational impacts?

Instead of focusing on these difficult long-term questions, the State Government's plan appears to fixate on short-term promises and easy messaging leading into an election.

Governance

The State Government's report claims that a new water and sewerage GBE would need to identify and design a new program delivery model, new governance arrangements and a new procurement strategy, all within the first 12 months, while at the same time recruiting replacement expertise and trying to maintain a program of accelerated expenditure.

In contrast, TasWater already has all of these elements in place. The State Government's plan carries unnecessary risk, increased expense and likely loss of traction on the capital program as they try to duplicate work that is already done and already in place.

Additionally, it is concerning that Infrastructure Tasmania has criticised the Environment Protection Authority, another State Government department, calling its approvals process "a risk to delivery of the capital program within the proposed timeframes". It appears the government is suggesting either that the EPA should relax its standards or find other ways to cut corners.

Infrastructure Tasmania also criticises the TasWater Board for being "highly risk adverse", but calling for a relaxation of risk assessment and rushing of internal approvals is a recipe for future water and sewerage problems, with undersized, inappropriate and poorly thought-through infrastructure that does not meet Tasmania's future needs. TasWater is not prepared to risk the health and water security of our customers.

TasWater's workforce

The State Government's report includes open criticism of TasWater's workforce, claiming the organisation lacks expertise and capability. The fact is that TasWater are the experts when it comes to water and sewerage in Tasmania – not Entura, not Tas Irrigation, not the State Government nor any other organisation. To many staff, the State Government appears to neither understand the scope of work proposed nor appreciate the skills required to get the job done.

This is a major blow for the more than 800 TasWater employees, many of whom are fatigued after years of reform to the sector. They are now facing even more uncertainty about another round of reform, rushed through to meet an unreasonable political deadline.

pitt&sherry review

The review provided by pitt&sherry is far from a ringing endorsement of the State Government's plan, but is instead a string of warnings, assumptions and qualifications. It clearly states that the limited amount of information provided "makes it difficult to undertake a rigorous assessment of the Plan".

Deploying any capital program – certainly one as large and comprehensively planned as TasWater's – is always complicated. Yet the State Government has promised to lift TasWater's capital program from a planned $154 million to $195 million in the first year alone, with no knowledge of the individual projects it proposes to bring forward.

pitt&sherry recognises this, noting "that the success of capital delivery is determined by the upfront planning, approvals and scoping...[which] takes significant effort and resource prior to delivering works". An acceleration of capital works will only make this more difficult and more complex.

Given the State Government has identified the EPA approvals process as a possible roadblock to accelerated capital works, pitt&sherry has correctly identified a need to provide additional resourcing to the EPA. However, the State Government's plan makes no mention of this, nor its cost or long-term implications.

Comparison with interstate utilities

In an effort to justify its proposed takeover, the State Government has benchmarked TasWater's capital works expenditure against four other water utilities: Sydney Water, Australia's largest water service provider; Barwon Water; Hunter Water; and Gold Coast Water. But a comparison of capital expenditure alone is unhelpful, because each water utility operates within a completely different environment. It is not a comparison of 'like with like'.

As the figures below demonstrate, TasWater has a disproportionately high number of assets, including water and sewerage treatment plants per property, while servicing a much smaller population across a far larger area. In this context, TasWater's capital spend per property is much higher than other utilities.

Utility	WTPs	Properties per WTP	STPs	Properties per STP	Properties serviced	Properties per employee	Capital spend per property	Year started
TasWater	74	2,736	113	1,575	202,478	215	$637	2013
Sydney Water	9	211,000	25	74,080	1,899,234	700	$359	1995
Barwon Water	8	18,875	11	12,364	151,418	463	$528	1994
Hunter Water	6	40,333	19	12,158	242,277	495	$414	1991

*Data for Gold Coast Water is currently not available.

These basic equations of a small customer base and a disproportionate amount of assets to manage and maintain, are at the heart of TasWater's ongoing Price and Services Plans, designed to deliver

upgrades to our infrastructure at a sustainable pace, without unduly impacting our customers with higher bills or future debt.

Further, pitt&sherry's review notes that some of the difficulties currently experienced by TasWater are not unusual for a utility at this stage of maturity, being among the youngest in Australia. If that is the case, then why start again by creating yet another water and sewerage utility?

Launceston

TasWater, the single largest holder of specialist knowledge and experience on the Launceston sewerage system, has not been invited by the State Government to join the new Tamar Estuary Management Taskforce.

TasWater fully understands the challenges of Launceston's sewerage problems, with potential solutions expected to cost hundreds of millions of dollars. Yet this new taskforce intends to spend six months finding solutions without including TasWater as a member of the committee.

Despite the State Government's proposal to take over TasWater, its plan has no additional funding allocated for Launceston. TasWater has consistently sought funding from both the State and Australian Governments so it can collaboratively work towards improvements.

Unfortunately, in the statements from the State Government there also appears to be confusion over the actual problems faced by the Tamar River and their solutions.

For example, despite the limitations of the combined system of storm water and sewage throughout the CBD and Invermay, overflows during heavy rain contribute just five per cent of the pollutants in the Tamar River. The rest are from agriculture, industry and environmental runoff. Separating the combined system will not significantly improve the river's health, which has been outlined in studies already undertaken by NRM North.

The combined system should also not be confused with the Launceston Sewerage Improvement Project, which would close seven older sewage treatment plants and divert their flows via new pipelines to one new plant, to be built at Ti Tree Bend.

TasWater has an existing program to monitor the combined system and fund renewal works where needed. This is run in collaboration with City of Launceston and NRM North, to better inform discussion about the combined system and to guide future capital investment.

Drinking water compliance

Clean drinking water is available to 99 per cent of TasWater's customers. In August 2016, TasWater made a public commitment to address water quality issues and remove public health alerts in small towns across Tasmania.

As of July 2017, five towns have had their public health alerts removed:

- Whitemark
- Scamander
- Avoca
- Mole Creek
- Lady Barron.

Branxholm, Ringarooma, Derby, Legerwood and Winneleah will all follow soon. Each of these towns has had major works completed by TasWater in recent months and water quality testing is now underway. By August 2018, just one year away, 100 per cent of TasWater's customers will have the clean drinking water they expect and deserve.

Sewage compliance

The statement that only one in 79 sewage treatments is fully compliant with environmental standards is deliberately misleading. This is like saying a student has failed because her report card doesn't have straight A's. In fact, in 2015-16 around 84 per cent of the total volume of sewage treated by TasWater was compliant to EPA parameters. However, TasWater acknowledges this is still not good enough.

In 2016, TasWater reached an agreement with the EPA to concentrate our efforts on a handful of our worst-performing sewage treatment plants, where the greatest improvements can be made. These include the sewage treatment plants being closed down as a part of the $51 million Kingborough Sewerage Upgrade Project, now underway and due to for completion by the end of 2018.

The causes of sewage spills are largely out of TasWater's control. These include flooding, power outages, trade waste, tree roots and soil movement, as well as ageing under-sized infrastructure.

By 2018, TasWater will have completed its project to deliver clean drinking water to the one per cent of Tasmanians in small towns who have been going without. This will leave us with the capacity and resources to focus on sewage.