

Australia's Urban Water Sector - Public Hearing

Hobart - 13 December 2010

Presentation by Local Government Association of Tasmania

The Association has been requested to make a brief presentation in relation to water and sewerage reform in Tasmania. As indicated in the initial contact, the focus of the presentation will largely relate to the process pertaining to the reform, the structures, the arrangements and the implementation.

The reform was initially announced unilaterally by the State Government during the then Premier's State of the State address in 2006.

To be overseen by a Taskforce chaired by the Treasurer and comprising relevant portfolio Ministers, the terms of reference for the review were to:

1. conduct a high-level review to broadly assess the adequacy of Tasmania's existing urban and regional reticulated water and sewerage infrastructure and the nature and scope of investment required to meet needs into the future;
2. examine structural, regulatory and other institutional arrangements in Tasmania and in other jurisdictions with a view to identifying a recommended approach for Tasmania;
3. advise on the likely financial and other impacts on key stakeholders (including local government and water users) and risks arising from changes to existing structural, regulatory and institutional arrangements;
4. consult stakeholders, particularly local government, regarding options for a state-wide water and sewerage plan;
5. prepare a report outlining options for a state-wide water and sewerage plan, including an implementation timetable; and
6. prepare a report for Cabinet detailing the progress and status of the project by the end of March 2007.

The underlying assertions by the State Government supporting the reform process were:

- \$800m - \$1billion capital expenditure required.
- 50% south, 30% north, 20% north-west
- no condition assessment by 50% of councils
- no strategic asset management plans for 70% of councils
- 50% of treatment plants not always compliant
- 23 systems on permanent boiled water alerts
- 15000 urban properties not on reticulated sewerage

The Treasurer advocated that a State owned single model with a significantly enhanced regulatory system would likely result in the best reform outcome for the State. Local government initially took a status quo position but preferred a regional Local Government owned outcome if reform was inevitable

During initial discussions with the Treasurer, agreement was reached on 10 principles that should underpin the reform model – regardless of structure

- primary business focus of W&S services
- expert and independent board
- run as a commercial entity(s)

- operate under formal arrangements that ensure appropriate and workable governance and reporting
- organisational, management and technical capacity to respond to enhanced regulatory framework
- organisational and management capability to manage transitional and operational business activities
- formalised dividend policy & appropriate balance sheet, profit and loss & cash-flow strength to access debt funding to support required investment & fund all business activities on sustainable basis
- managing transfer of all existing water and sewerage services, functions, assets & liabilities to new business within period not exceeding 3 years from operational commencement, targeted for early 2009
- managing transfer of all water and sewerage employees of the BWA's & councils to new business on no-detriment basis
- sufficient scale to attract & retain high calibre staff & provide for ongoing training, skills enhancement & development needs.

4 structural models were considered as part of the reform negotiations

- State owned single entity
- State owned regional entities
- Local Government owned single entity
- Local Government owned regional entities

Local Government's preferred model entailed the following characteristics

- Regional entities
- Owned by Local Government
- Dividends to be retained by Local Government
- Tax equivalents paid to Local Government
- No detriment to employees
- No financial impact on councils

The regionally owned model was ultimately negotiated and agreed but with the following stipulations by the State Government:

- The corporations must conduct a dialogue with Treasurer/Minister on strategic issues
- 3 owner representatives to be appointed for each region
- Common chair and 3 common board members with requisite expertise to be appointed to boards
- A common service provider corporation to be established to service the corporations
- An ex-officio committee to be established for board appointments
- That the corporations be subject to Parliamentary scrutiny via GBE scrutiny Committee

Agreed Board Arrangements

- Independent chair
- 3 expert members possessing appropriate qualifications and experience

- 2 members with appropriate qualifications and experience but with community of interest perspective
- Nominated via ex-officio committee with owners' representatives making selection

In much the same way as Government Business Enterprises and State Owned Corporations are assigned an owner's representative, usually the Treasurer, it was agreed that 3 owners' representatives from each region would be appointed by the regional groupings of councils to attend to their interests. The role of owners' representatives is as follows:

- Liaise with members and Board
- Establish Selection Committee for Board Appointments
- Appoint Board Members
- Provide businesses with statement of shareholder expectations
- Review corporate plan and performance targets
- Ensure business objectives consistent with overall policy frameworks and objectives

Employee arrangements on transfer to the corporations

- All employees directly associated with function will transfer
- No redundancies will be provided
- Decisions to be made on shared roles
- Salaries and benefits retained for 12 months

A Joint Steering Committee chaired by the President of the Local Government Association and comprising members of Local Government and key State officials was established to:

- Oversee implementation processes including due diligence, drafting constitutions, SH's letters of expectation, initial funding of corps and initial functions of CSP
- Develop and implement communication strategy and transition plans

\$5 million was provided to the Local Government sector to assist with the transition process