

Performance audit — Audit Planning Memorandum

TasWater: benefits of formation

Background

Prior to 2008, Tasmania's water and sewerage infrastructure was either: owned and operated by one of the State's 29 local-government councils; or one of the three bulk-water authorities¹. The authorities also provided treated water to the larger population centres, while individual councils were responsible for reticulating water to residences and businesses. However, many smaller local-government councils struggled to maintain their water and sewerage infrastructure. In 2006, the government appointed a Ministerial Water and Sewerage Taskforce². It noted that Tasmania faced significant challenges to enable its water and sewerage infrastructure to keep pace with demand and that in many areas existing water and sewerage infrastructure was reaching capacity. The taskforce noted that the then Department of Primary Industries and Water had identified 33 towns with water supply problems and 58 wastewater treatment systems operating below contemporary standards³.

Following a detailed assessment of the taskforce's findings the government passed the *Water and Sewerage Corporations Act 2008* (the Act). The Treasurer stated in his second reading speech to Parliament that the government had identified:

- a billion dollars needed to be spent over the next decade for new water and sewerage infrastructure
- half of the 29 councils had not completed asset condition assessments and 70 per cent did not have adequate asset management plans
- low financial returns (two to three per cent), which had resulted in underinvestment in infrastructure and little capacity to service debt
- approximately 50 per cent of waste water treatment plants did not comply with their licencing conditions
- permanent boil alerts were in place for 23 water supply areas, including key tourism destinations.⁴

¹ The three bulk-water authorities (Hobart Water, Esk Water and Cradle Coast Water) were also owned by the local-government councils.

² The taskforce comprised of the Treasurer, the Minister for Primary Industries and Water and the Minister for Tourism, Arts and the Environment.

³ Tasmanian Government, *Ministerial Water and Sewerage Taskforce Discussion Paper, Reform of Tasmania's Water and Sewerage Sector*, Hobart, December 2006, p.7.

⁴ Second reading, *Water and Sewerage Corporations Bill 2008*, Parliament of Tasmania, Hobart, 2008.

The Act transferred existing council-owned water and sewerage assets and liabilities⁵ to three new entities, Southern Water⁶, Ben Lomond Water⁷ and Cradle Mountain Water⁸. A fourth entity, Onstream⁹ provided shared services to the corporations (e.g. IT, billing, procurement and payroll¹⁰). Each entity had a separate board of directors and management team. The Onstream board included CEOs from Southern Water, Ben Lomond Water and Cradle Mountain Water. The State's 29 local-government councils became the shareholders of the three regional corporations with Onstream being jointly owned by the other three corporations.

The Treasurer, outlined in general terms, the benefits arising from the creation of the new regional water and sewerage entities. He stated that the reforms would:

- bring the infrastructure up to standard and provide for renewal and augmentation over the coming decades
- create enormous opportunities for employees in the water and sewerage sector
- assist tourism operators and local businesses
- give the Tasmanian community cost-effective services on a sustainable basis in line with appropriate standards
- deliver significant long-term public health, environmental and economic benefits to Tasmania and Tasmanian communities¹¹.

The expected benefits were clarified in the government's November 2010 submission to the Productivity Commission's inquiry into the Australian urban water sector, being:

- improving compliance with environmental standards for wastewater
- improving compliance with water quality standards
- increasing revenue flows into the sector to a level that supports self-sustaining investment and the appropriate use of debt funding

⁵ The transfer also included the assets and liabilities of the existing three bulk water authorities.

⁶ Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd

⁷ Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd

⁸ Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Ltd

⁹ Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd

¹⁰ Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd, Annual report 2011–12, Onstream 2012, p.5.

¹¹ Second reading, Water and Sewerage Corporations Bill 2008, Parliament of Tasmania, Hobart, 2008.

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- ensuring that minimum customer service standards exist and drive business decision-making and that customers pay for the services they receive
- ensuring that customers have a voice, through their explicit involvement in transparent regulatory process
- instituting strategic asset management planning
- requiring communication between technical regulators and the economic regulator.¹²

While progress was made with the 2008 reforms, there were still boil alerts, sewerage spills, legacy systems, duplication of resources and funding issues for new infrastructure. Cradle Mountain Water had the lowest equity, revenue and profits of the three regional corporations. In 2011–12, it reported only a 45 per cent rate of compliance with the Environment Protection Authority (lowest of the three entities).

In September 2011, the common Chair of the boards of Onstream and the three corporations initiated discussions with the owner councils about the potential benefits of moving to a single state-wide water and sewerage corporation.

A 2012 House of Assembly Select Committee noted from the government submission that:

... a single entity could provide: consistency in service delivery and customer relations across the State: statewide planning for infrastructure; a greater ability to attract necessary skills and experience to the sector: and estimated potential savings in the order of \$5 million per year after a period of time.¹³

In June 2012, the member councils resolved to support the formation of a single state-wide water and sewerage corporation. This initiative was supported by the State Government, which passed enabling legislation to move to a single entity in 2012. The government's second reading speech envisaged:

- Statewide planning for infrastructure
- consistency in service delivery and customer relations across the State
- further integration of administrative systems, which would create opportunities for cost savings and reduce reporting and administrative effort
- an ability to draw on a broader base of employee skills and experience

¹² Tasmanian Government's submission to the Productivity Commission inquiry into Australia's urban water sector, November 2010, p.4.

¹³ Parliament of Tasmania, *House of Assembly Select Committee report into the Tasmanian Water and Sewerage Corporations*, Hobart, No. 4 2012, p.4.

- a stronger and more stable cash flow, a better capacity to manage debt and more flexibility to deal with a significant capital expenditure program
- a capacity to secure better services for customers and to achieve health and environmental standards sooner.

On 1 July 2013, the three corporations and Onstream merged into the Tasmanian Water and Sewerage Corporation, trading as TasWater. The government hoped that the newly merged entity would better address the ongoing problems with ageing infrastructure, inconsistent water pricing, boil alerts and sewerage spills. In addition, the government hoped efficiencies would be made with regard to the governance and management costs associated with the previous structure. The new corporation was expected to operate on a sound sustainable commercial basis that would provide a reasonable return to investors, while positively impacting on the development of the Tasmanian economy.

Audit objective

The objective of the audit will be to assess the extent to which the benefits, as envisaged by the government in the 2008 and 2013 water and sewerage reforms, have been achieved.

Audit scope

The audit will examine the management and operation of water and sewerage infrastructure assets before and after the commencement of the *Water and Sewerage Corporations Act 2008 and the Water and Sewerage Corporation Act 2012* (the restructures).

Audit criteria

Criteria	Sub-criteria
1: Have the restructures delivered improved public health and environmental benefits?	1.1 Have tourism operators and local businesses been provided with improved water and sewerage infrastructure sooner? 1.2 Has compliance with applicable water quality standards improved? 1.3 Has compliance with applicable environmental standards for wastewater improved?
2: Have the restructures improved strategic asset management?	2.1 Has improved strategic asset management been achieved? 2.2 Has old and failing water and sewerage infrastructure been identified and renewed? 2.3 Has water and sewerage infrastructure been augmented or expanded?

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Criteria	Sub-criteria
3: Have the restructures delivered the expected financial benefits?	<p>3.1 Have pricing structures balanced revenue maximisation against equity within the regulatory environment?</p> <p>3.2 Have revenue flows increased to achieve self-sustaining investments and has an appropriate level of debt funding been used?</p> <p>3.3 Has more flexibility to deal with the capital expenditure program been achieved?</p> <p>3.4 Do customers pay an appropriate amount for the services they receive?</p> <p>3.5 Have cost savings and reduced reporting and administrative effort been achieved?</p>
4. Have the restructures provided improved customer service?	<p>4.1 Have minimum customer standards been established and achieved?</p> <p>4.2 Has service delivery and customer relations improved across the State?</p>