



CITY OF HOBART

AGENDA

SPECIAL FINANCE COMMITTEE MEETING (OPEN PORTION OF THE MEETING)

MONDAY 6 JUNE 2016

AT 3.45 PM

THE MISSION

Our mission is to ensure good governance of our capital City.

THE VALUES

The Council is:

about people

We value people – our community, our customers and colleagues.

professional

We take pride in our work.

enterprising

We look for ways to create value.

responsive

We're accessible and focused on service.

inclusive

We respect diversity in people and ideas.

making a difference

We recognise that everything we do shapes Hobart's future.

HOBART 2025 VISION

In 2025 Hobart will be a city that:

- Offers opportunities for all ages and a city for life
 - Is recognised for its natural beauty and quality of environment
 - Is well governed at a regional and community level
 - Achieves good quality development and urban management
 - Is highly accessible through efficient transport options
 - Builds strong and healthy communities through diversity, participation and empathy
 - Is dynamic, vibrant and culturally expressive
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**BUSINESS LISTED ON THE AGENDA IS TO BE CONDUCTED IN THE ORDER
IN WHICH IT IS SET OUT UNLESS THE COMMITTEE BY SIMPLE MAJORITY
DETERMINES OTHERWISE**

I, Nicholas David Heath, General Manager of the Hobart City Council, hereby certify that:

1. In accordance with Section 65 of the Local Government Act 1993, the reports in this agenda have been prepared by persons who have the qualifications or the experience necessary to give such advice, information or recommendations included therein.
2. No interests have been notified, pursuant to Section 55(1) of the Local Government Act 1993, other than those that have been advised to the Council.



N.D. HEATH
GENERAL MANAGER

SPECIAL FINANCE COMMITTEE AGENDA (OPEN)

Committee Members

Cocker (Chairman)
Deputy Lord Mayor Christie
Zucco
Ruzicka
Sexton
Aldermen
Lord Mayor Hickey
Briscoe
Burnet
Thomas
Reynolds
Denison
Harvey

Special Finance Committee (Open Portion of the Meeting) - Monday 6 June 2016 at 3.45 pm in the Lady Osborne Room.

PRESENT:

APOLOGIES:

LEAVE OF ABSENCE: Alderman P T Sexton.

CO-OPTION OF COMMITTEE MEMBERS IN THE EVENT OF A VACANCY

Where a vacancy may exist from time to time on the Committee, the Local Government Act 1993 provides that the Council Committees may fill such a vacancy.

1. INDICATIONS OF PECUNIARY AND CONFLICTS OF INTEREST

In accordance with Part 2 Regulation 8 (7) of the *Local Government (Meeting Procedures) Regulations 2015*, the chairman of a meeting is to request Aldermen to indicate whether they have, or are likely to have, a pecuniary interest in any item on the agenda.

In addition, in accordance with the Council's resolution of 14 April 2008, Aldermen are requested to indicate any conflicts of interest in accordance with the Aldermanic Code of Conduct adopted by the Council on 27 August 2007.

Accordingly, Aldermen are requested to advise of pecuniary or conflicts of interest they may have in respect to any matter appearing on the agenda, or any supplementary item to the agenda, which the committee has resolved to deal with, in accordance with Part 2 Regulation 8(6) of the *Local Government (Meeting Procedures) Regulations 2015*.

2. TASWATER EXTERNAL FUNDING PROPOSAL – FILE REF: 41-50-17

20x's

Memorandum of the General Manager of 1 June 2016 and attachments.

DELEGATION: Council



41-50-17
NH:FC

1 June, 2016

MEMORANDUM: COUNCIL

TASWATER EXTERNAL FUNDING PROPOSAL

At a special Finance Committee meeting held on 23 May 2016 a report was presented in relation to a TasWater external funding proposal (*Attachment A*)

The Committee resolved as follows:

The matter be deferred for further consideration

As part of the discussion on the item there were some points which were raised for further investigation which could be of assistance to the Committee, namely:

- the views of the other councils in relation to a proposed five year moratorium; and
- a copy of TasWater's 10 year Water and Sewerage Capital Works Program.

An approach was made to all Tasmanian councils to ascertain whether the matter had been considered by council and what the council had decided (*Attachment B*).

The information received from councils show that 19 have considered the proposal with 17 councils supporting an extension to the moratorium on increases in distributions and 2 councils not voting in favour of an extension.

15 of the councils in support of an extension to the moratorium agreed to a freeze for a further seven years. Two councils supported a freeze for two years (with one council opting for a two year moratorium then to undertake a review for the final five years). The support of a majority of councils to extend the moratorium was subject to a successful application for financial support from both State and Federal Governments.

Seven councils are yet to consider the matter however, indications are that six councils are likely to support an extension to the moratorium.

At the time of writing, two councils were yet to provide a response.

The Council also requested a copy of TasWater's 10 year Water and Sewerage Capital Works Program. A copy of this program can be found at *Attachment C*.

Given the above and attached information, the report of the Director Financial Services is referred back to the Council for its consideration.



(N. D. Heath)

GENERAL MANAGER

Attachments: Attachment A - Report of the Director Financial Services
Attachment B - Council analysis
Attachment C - TasWater 10 year Water and Sewerage Capital
Works Program

TO : Finance Committee

FROM : Director Financial Services

DATE : 17 May, 2016

SUBJECT : **TASWATER EXTERNAL FUNDING PROPOSAL**

FILE : 41-50-17 DS:PG

1. INTRODUCTION

- 1.1. The purpose of this report is to seek Council endorsement on a proposal from TasWater to extend the moratorium on increases in distributions to owner Councils for a further seven years.

2. BACKGROUND

- 2.1. At the General Meeting of Owners' Representatives of TasWater on May 2016 it was proposed that the Owners' Representatives give consideration to the following motion:

That Owner Councils agree to a moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from the State and Federal Governments to make grants totalling no less than \$400M over a ten year period.

- 2.2. There is currently a three year freeze on increases in TasWater distributions in place. This caps Owner Councils distributions at \$30M per annum for financial years 2016, 2017 and 2018 which gives the Hobart City Council an annual share of \$3.258M.

- 2.3. The increase in the freeze on distributions to the Owner Councils has been proposed by TasWater based on the estimated funding needed to bring water and sewerage infrastructure up to an acceptable standard over the next 10 years. It is estimated that this will require a spend of \$1.8bn.

- 2.3.1. TasWater can fund \$1.2bn of the total funding required and has proposed that the shortfall of \$600M be funded by:

2.3.1.1 TasWater finding further savings of \$10M pa or \$100M over 10 years.

2.3.1.2 The State and Federal Governments contributing \$400M over the next 10 years.

2.3.1.3 The current freeze on distributions to Owner Councils be extended for a further seven years.

- 2.4. It is TasWater's view that funding from the State and Federal Governments is unlikely to be forthcoming if they are unable to show that the Owner Councils are not prepared to share some of the financial burden.
- 2.5. The question being asked by TasWater of the Owner Councils is are they prepared to accept a reduction in projected distributions in order that TasWater has the opportunity to persuade State and Federal Governments to assist in funding the investment needed for upgrades to the state's water and sewerage infrastructure.
- 2.6. At the Owner Councils meeting on 12 May members requested further information about the implications for individual Councils. TasWater has provided an analysis on the implications for Hobart City Council which is available at **Attachment A**. The analysis is summarised below:
- The effect of extending the current freeze on distributions means that Owner Councils will have foregone \$82M. The effect for Hobart City Council will be that it forgoes \$8.864M over the 10 years while receiving \$32.580M of distributions over the same period.
- 2.7. It should be noted that the current freeze and the proposed extension will have no impact on the Council's Long-Term Financial Management Plan (LTFMP). The LTFMP does not assume any growth in TasWater distributions and assumes only the distribution of \$3.258M pa into perpetuity.
- 2.8. In other words, there will be no impact on the LTFMP, because it has been conservatively prepared with respect to distributions. However, the freeze will represent a real loss of income to the extent that distributions would be higher than proposed, and higher than the assumption in the LTFMP, except for the proposed freeze.

3. PROPOSAL

- 3.1. It is proposed that the Council agrees to extend the current freeze on distributions by a further seven years subject to the funds being used to upgrade the state's water and sewerage infrastructure.

4. STRATEGIC PLANNING IMPLICATIONS

- 4.1. Goal 5 – Governance is applicable in considering this report, particularly strategic objective:

“5.1 The organisation is relevant to the community and provides good governance and transparent decision-making”

5. FINANCIAL IMPLICATIONS

5.1. Funding Source(s)

5.1.1. Not applicable

5.2. Impact on Current Year Operating Result

There will be no impact on the current year operating result as the three year freeze on increases in distributions has already been factored into the LTFMP.

5.3. Impact on Future Years' Financial Result

5.3.1. There will be no impact on future years operating results as the LTFMP does not assume any growth in TasWater distributions into perpetuity. Any growth in distributions would be a windfall gain in the current LTFMP.

5.3.2. However, the freeze will represent a real loss of income to the extent that distributions would be higher than proposed, and higher than the assumption in the LTFMP, except for the proposed freeze.

5.4. Asset Related Implications

5.4.1. Not applicable.

6. DELEGATION

6.1. This matter is delegated to the Council.

7. CONSULTATION

7.1. General Manager, TasWater Board Chairman, other Owner Councils.

8. CONCLUSION

8.1. At the General Meeting of Owners' Representatives of TasWater on 12 May 2016 it was proposed that the Owners' Representatives give consideration to extending the freeze on increases in distributions for a further seven years to enable TasWater to pursue grants from State and Federal Governments to fund improved water and sewerage infrastructure.

8.2. All Owner Councils have been requested to consider the proposal as a matter of urgency so as to enable their Owners' Representative being in a position to vote on the matter at a special meeting of the Owners' Representatives Group on Thursday 9 June.

- 8.3. There is currently a three year freeze on increases in TasWater distributions in place. This caps Owner Councils distributions at \$30M per annum for financial years 2016, 2017 and 2018 which gives the Hobart City Council an annual share of \$3.258M.
- 8.4. An increase in the freeze on distributions for a further seven years has been proposed by TasWater based on the estimated funding needed to bring water and sewerage infrastructure up to an acceptable standard over the next 10 years, it is estimated that this will require a spend of \$1.8bn.
- 8.5. The effect of extending the current freeze for Council will be that it forgoes \$8.864M over the 10 years while receiving \$32.580M of distributions over the same period.
- 8.6. An extension of the freeze will have no impact on the Council's Long-Term Financial Management Plan (LTFMP). The LTFMP does not assume any growth in TasWater distributions and assumes only the distribution of \$3.258M pa into perpetuity. However, to the extent distributions would otherwise be higher except for the proposed extended freeze, this represents a real loss of income to Council.

9. RECOMMENDATION

That:

- 9.1. *The report DS:pg(document2) be received and noted.*
- 9.2. *The Council approves the request from TasWater to extend the moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from State and Federal Governments to make grants totalling \$400M over a ten year period to upgrade the state's water and sewerage infrastructure.*

As signatory to this report, I certify that, pursuant to Section 55(1) of the Local Government Act 1993, I hold no interest, as referred to in Section 49 of the Local Government Act 1993, in matters contained in this report.



(David Spinks)

DIRECTOR FINANCIAL SERVICES



13 May 2016

Lord Mayor Alderman Sue Hickey

Owner's Representative

Hobart City Council

GPO Box 503

Hobart TAS 7001

Dear Owner's Representative,

External Funding Proposal

I am writing to you following the General Meeting of Owners' Representatives of TasWater on 12 May 2016.

At that meeting it had been proposed that Owners' Representatives give consideration to the following motion:

That Owner Councils agree to a moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from the State and Federal Governments to make grants totalling no less than \$400M over a ten year period.

However, when it became apparent that the substantial majority of Councils had not had the opportunity to consider the proposal, it was determined that I write to all Councils asking them to consider the proposal as a matter of urgency with a view to their Owner's Representative being in a position to vote on the matter at a special meeting of Owners' Representatives Group to be held at 10.30 am on Thursday 9 June 2016 at the Windsor Community Precinct, 1 Windsor Drive, Riverside.

Please accept this letter as a Notice of Meeting under rule 6.3 of the TasWater Constitution. In setting this date we realise it may not be convenient for all Owners' Representatives, but Councils may appoint a proxy to attend on their behalf. A proxy form is enclosed for this purpose.

The big picture is TasWater estimate the funding needed to bring our water and sewerage infrastructure up to an acceptable standard over the next 10 years will require a spend of \$1.8bn.

TasWater can fund \$1.2bn and we have put together a proposal that the \$600M shortfall be funded by TasWater finding further savings of \$10M pa or \$100M, that the State and Federal



Governments contribute \$400M over the next 10 years and that the current freeze on distributions to Owner Councils be extended for a further seven years, which in effect means that Councils will have forgone \$82M.

It is TasWater's view that in the absence of Councils being prepared to share some of the financial pain with State and Federal Governments it is highly unlikely that we will be able to secure the additional funding needed to address the shortcomings in our infrastructure on a timely basis.

Members present at the General Meeting requested further information about the particular implications for individual Councils of this proposal. This information is enclosed.

The analysis demonstrates that, assuming a base case of a compounding tariff and distribution increase of 4.5%, your Council is in effect being asked to forgo \$8.864M in distributions over the ten year period, but you will still receive \$32.580M over the period.

It is worth noting that your Council has already foregone 48% of this amount in agreeing to the three year distribution freeze in response to the Economic Regulator's pricing determination, as agreed by the Owners' Representatives at the General Meeting on 22 April 2015.

At the end of the day it is a simple proposition: are Councils prepared to accept reduction in projected distributions in order that TasWater has the opportunity to seek to persuade the State and Federal Governments to assist us in funding the \$1.8bn investment in much needed upgrades to the state's water and sewerage infrastructure.

A question that has been asked is whether TasWater could itself fund a \$1.8bn capital program in the absence of the funding, \$482M that would come from the proposed moratorium of \$82M and the \$400M from the State and Federal Governments.

There are two key financial metrics that are relevant to this possibility, interest coverage and gearing.

Our modelling has been based on an aggregate tariff increase of 52% over the next 10 years. If TasWater were to take on the debt, in order to maintain the Board-endorsed minimum interest coverage of two times, the tariff increase over the next 10 years would increase by a further 26% to 78%.

Even if this level of tariff increases were considered acceptable, and they are not, the resulting level of gearing would unlikely be acceptable to Tascorp, and indeed the Board and Owner Councils.

In the event that you would like to discuss the proposal, please feel free to contact the writer by phone on 0418 120 163 or by email on miles.h@me.com.

Yours faithfully

A handwritten signature in black ink, appearing to read "Miles Hampton".

Miles Hampton

Board Chairman

TasWater 10 Year Distribution Scenarios

Council: Hobart

Distribution Percentage: 10.86%

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Total
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Original Distribution Profile¹

Total Distributions	[A]	3,388	3,524	3,665	3,848	4,040	4,242	4,412	4,589	4,772	4,963	41,444
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10 Year Freeze Distribution Profile²

Total Distributions	[B]	3,258	3,258	3,258	3,258	3,258	3,258	3,258	3,258	3,258	3,258	32,580
Increase/(Decrease)	[B - A]	(130)	(266)	(407)	(590)	(782)	(984)	(1,154)	(1,331)	(1,514)	(1,705)	(8,864)

Notes:

1. Based upon the financial outcome under TasWater's submitted Price and Service Plan 2015 - 2018 (PSP2). Total distributions grow each year at the same rate as revenue, being 4% per annum for the period of PSP2 (FY16 - FY18), 5% per annum for the period of PSP3 (FY19 - FY21) and 4% per annum beyond PSP3 (FY22 onwards).
2. Based upon the financial outcome under the approved PSP2, and discussed with Owners Representatives at the General Meeting of Owners held on 12 May 2016.

Attachment B

Number	Council	Agreed	Term	Council decision
1	Northern Midlands Council	Yes	7 years	Carried unanimously That the Northern Midlands Council agrees to a moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from the State and Federal Governments to make grants totalling no less than \$400M over a ten year period.
2	Devonport Council	Yes (conditional support)	7 years	Carried That Council in relation to the request from TasWater confirm its conditional support for a moratorium on increases in distributions for an additional period of seven years providing TasWater is successful in securing commitment from State and Federal Governments for grant funding totalling no less than \$400M over a ten year period.
3	Kingborough Council	Yes	7 years	Carried unanimously Agreed to a seven year extension
4	Break O Day Council	Yes	7 years	Carried unanimously That Council agree to a moratorium on increases in distributions for a further seven (7) years in the event that TasWater secures State and/or Federal Government Funding of no less than \$400m over a ten (10) year period.
5	Dorset Council	Yes	7 years	Carried Unanimously That Owner Councils agree to a moratorium on increases in distributions for a further seven (7) years in the event that TasWater secures commitment from the State and Federal Governments to make grants totalling no less than \$400M over a ten (10) year period

Number	Council	Agreed	Term	Council decision
6	Huon Valley Council	Yes (if the State of Federal Governments commit more than \$400M the matter be referred back to Owners Representatives	7 years	That owner Councils agree to a moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from the State and Federal Governments to make grants of \$400 million over a ten year period. If the State or Federal Governments commit more than \$400 million then this matter is to be referred back to the owners representations.
7	West Tamar Council	Yes	7 years	Carried Matter was considered on 17 May meeting with the Council resolving they support the request form TasWater, that Owner Councils agree to a moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from the State and Federal Governments to make grants totalling no less that \$400 million over a ten year period.
8	Southern Midlands Council	Yes	7 years	Carried On 25 May 2016 , the Council endorsed the proposal submitted by TasWater to put a moratorium on increases in distributions for a further seven years
9	George Town Council	Yes	7 years	Carried That George Town Council supports the extension of the current moratorium on increases in distributions until 2024/25 in the event that TasWater secures commitments of no less than \$400 million from the State and Federal Government over a 10 year period
10	Latrobe Council	Yes	7 years	Council hasn't considered the option outlined but after careful consideration has chosen to support the Authority's request to freeze dividends for a further seven years subject to a successful application for financial support from both State and Federal Governments

Number	Council	Agreed	Term	Council decision
11	Brighton Council	Yes		Council unanimously agreed to an extension of the current moratorium on increases to distributions.
12	Burnie City Council	Yes	7 years	Council agreed at a special meeting held on 31 May to support the proposition from TasWater to freeze distributions for a further 7 years.
13	Central Coast Council	Yes	7 years	The Central Coast Council have moved the following motion at its Special Council Meeting on 30 May: That the Council commit to extending the current moratorium on increases in distributions until 2024-2025 in the event that TasWater secures commitments of no less than \$400 million from the State and Federal Governments over a 10 year period to upgrade the State's water and sewerage infrastructure
14	Tasman Council	Yes (TasWater to finalise outstanding matters)	7 years	Agreed to moratorium to 2024/25, subject to State & Fed Gov contribution, subject to TasWater finalizing outstanding matters from the 2009 transfer orders.
15	Flinders Island Council	Yes	7 years	Carried unanimously That Council as an Owner Council agrees to a moratorium on increases in distributions for a further seven years in the event that TasWater secures commitment from the State and Federal Governments to make grants totalling no less than \$400 million over a ten year period.
16	Sorell Council	Yes	2 years then review for final 5 years	Agreed to additional two year moratorium then review for final five years and subject to State & Fed Gov contribution, subject to provision of 10 year detailed capex program, subject to TasWater meeting separate commitments they advised Council of in 2015

Number	Council	Agreed	Term	Council decision
17	West Coast Council	Yes	2 years (2018)	All Councillors unanimously agreed to a freeze until 2018 (noting that Councillors did not want to burden future Councils with the proposed reductions beyond their term). Councillor's were of the opinion that a 10 year freeze is not appropriate and that Tas Water should be looking at further savings through operational efficiencies or other avenues.
18	King Island Council	No		Council agreed to not support a moratorium
19	Derwent Valley Council	No		At its 19 May 2016 meeting, the Council resolved to not support the extension of the current moratorium on increases in distributions until 2024/25 in the event that TasWater secures commitments of no less than \$400 million from the State and Federal Government over a 10 year period.
20	Waratah-Wynyard Council			Yet to be considered, but the recommendation will be to support the extension of the current moratorium on increases to distributions
21	Circular Head Council			Item to be considered at a special Council meeting on 2 June 2016
22	Launceston City Council			Yet to be considered, but the recommendation will be to support the extension of the current moratorium on increases to distributions.
23	Clarence City Council			Matter to be considered on 6 June 2016 but indications are that the Council will support the extension of the current moratorium on increases to distributions
24	Glenorchy City Council			Matter to be considered on 6 June 2016 but indications are that the Council will support the extension of the current moratorium on increases to distributions
25	Meander Valley Council			Matter to be considered at 7 June Council meeting and based on recent discussions at a workshop it is likely the Council will support the proposed 7 year moratorium.

26	Kentish Council			Forum to be held on 7 June with Council to consider the matter at their 21 June meeting. Indications are that the Council is likely to support an extension of the current moratorium on increases to distributions.
27	Glamorgan Spring Bay Council			
28	Central Highlands Council			



Tasmanian Water and Sewerage Major Projects Funding Proposal

There are a number of currently unfunded Tasmanian major water and sewerage capital projects which, should they proceed, will have significantly positive productivity, environmental, economic growth and jobs outcomes for Tasmania.

TasWater's major projects, which are the subject of this proposal, include:

- Rationalisation of sewerage treatment infrastructure in Hobart (Derwent River), Launceston (Tamar River) and Devonport
- Upgrades to Launceston's combined sewer/stormwater system and
- Upgrades to non-compliant drinking water systems in a number of small towns across the State where residents are required to boil the water.

Tasmanian water and sewerage customers are not able to fund TasWater's major projects in addition to the business' forecast annual capital expenditure program of \$1.1 billion over the next 10 years.

TasWater and its owner councils are seeking commitments from the Commonwealth and State Governments to each contribute to the costs of these major projects, subject to the finalisation of a business case for each project that confirms the intended benefits of each major project.

Owner councils and Tasmanian water and sewerage customers will also contribute to the costs of these projects, should funding commitments be forthcoming from the Commonwealth and State Governments.

Funding proposal

Of the estimated \$680 million required to realise this rationalisation and upgrade project \$155 million will be funded by customers through water and sewerage charges increasing at an average of 4.5 per cent per annum.

Council owners would contribute \$82 million by freezing returns for 10 years. This would mean their collective return on assets, as owners of TasWater, would be less than one per cent per annum.

The Tasmanian Government would contribute \$100 million and the Australian Government \$300 million in upfront payments, with the option to spread payments over the 10 year investment period.

TasWater will fund the balance of the required expenditure in addition to its planned capital expenditure program of \$1.1 billion over the next 10 years through increased borrowings and productivity improvements¹.

External funding of \$400 million would leverage TasWater's planned capital expenditure program from \$1.1 billion to \$1.8 billion.

¹ This is in addition to \$80M in recurrent savings arising from the formation of a single water business.

TasWater will prepare detailed business cases for each project confirming outcome, cost estimates and project timing. This will be one of a number of opportunities for all parties to confirm, review and/or reassess each project's scope and progress (if required).

Benefits of the proposal

TasWater has a disproportionate number of assets for the population served and its productivity (and the State's) would improve as a result of the project, with rationalisation reducing the number of assets and allowing TasWater to provide services and operate fit-for-purpose infrastructure more efficiently.

Much of Tasmania's sewage infrastructure is in a poor state with only 45% of the volume of sewage treated being compliant with licence requirements, many of which are not contemporary. The project would achieve considerable environmental improvement in significantly important rivers and estuaries across the State, including in Launceston where the existing system (by design) discharges diluted raw sewage into the Tamar River in times of heavy rainfall and can also discharge diluted raw sewage into some of the streets in Launceston.

Tasmania's 'clean and green' brand and image would be strengthened into the future as a result of the project and would no longer be compromised by the poor performance of ageing sewage treatment plants that do not comply with modern day standards.

The project would provide a highly visible, major jobs stimulus through the engineering and construction phases in particular and would release a number of strategic locations across the State for increased investment in the commercial, tourism and residential sectors.

TasWater, through Tasmanian water and sewerage customers, is unable to fully fund the project, meaning that external funding is needed from all levels of government.

Background

Since 2009 Tasmania has been implementing major structural reform in its water and sewerage sector to address significant deficiencies in its water and sewerage systems. The first stage of the reform was the formation of three regional water and sewerage businesses and a shared service provider whose tasks were previously the responsibility of three bulk water authorities and 29 councils.

In July 2013 Tasmania's three regional water and sewerage businesses and the shared service provider were merged to form TasWater. The formation of TasWater has facilitated a much deeper understanding of the water and sewerage sector and the subsequent development of strategic options for the state. Choices made now will impact the state for decades to come, particularly as the majority of water and sewerage investments are anticipated to have a life of between 30 and 100 years.

The state's image of being "clean and green" underpins many elements of its economy. The reality in terms of drinking water and sewage treatment is at odds with this image. As at December 2015 only 33% of Tasmania's main² Sewage Treatment Plants (STPs) met their environmental license

² As at 31 December 2015 TasWater is responsible for a total of 112 Sewage Treatment Plants. Taswater's 79 "main" STPs are referred to as Level 2 plants based on their effluent discharge being greater than 100kl per day and are regulated by Tasmania's Environmental

conditions and there are still 23 towns where residents are not able to drink the water directly from the tap.

Tasmania's second largest city, Launceston, is serviced by a century old combined drainage system that frequently discharges diluted raw sewage into one of the city's key recreational waterways, the Tamar River. In times of heavy rainfall diluted raw sewage overflows into the streets of Launceston.³

TasWater's long term financial plan incorporates capital investment of \$1.1 billion over the next 10 years. This expenditure is aligned with the financial capacity of the organisation and reflects an outcome that is perceived to be affordable for the community. It is however insufficient to address the full scale of major rationalisations and environmental improvements necessary for the sector to be economically efficient, meet modern day environmental standards and overcome a legacy of decades of underinvestment.

TasWater recently participated in a national benchmarking study with 18 other water and wastewater providers who collectively service 79% of Australia's population and 30% of New Zealand's population. This study identified that while Tasmania services only 1.8%⁴ of the total population serviced by all study participants, it has 38.4% of the Water Treatment Plants, 37.3% of Wastewater Treatment Plants and 17.7% of the dams. A key driver of efficiency for water and sewerage systems is scale, hence the disproportionate number of water and sewerage systems in Tasmania spread over a highly dispersed geographical area creates an underlying significant economic disadvantage for the state which is not easily overcome irrespective of the state of the assets.

When a lack of scale is coupled with aging and non-compliant water and sewerage infrastructure, the result is a state which is significantly disadvantaged with respect to the basics of a first world economy being the provision of safe drinking water and environmentally acceptable sewerage solutions at a price that is affordable for the community.

TasWater estimates that to address all of the rationalisations and environmental improvements for the sector to be both economically efficient and fully compliant, an investment of \$1.8 billion is required over the next 10 years. This level of investment will enable rationalisation of a number of major sewerage treatment plants thus avoiding significant expenditure in upgrading outdated plants, the provision of safe drinking water to all serviced towns and material improvements in the health of a number of Tasmania's key rivers.

The implementation of TasWater's proposed major rationalisation and upgrade program on top of its baseline \$1.1 billion planned expenditure will activate commercial, industrial and residential development across the State through the release of strategically important land, such as the \$1 billion Macquarie Point redevelopment in Hobart, create jobs in construction and engineering, and support economic growth in tourism, manufacturing and civil construction sectors across all regions of Tasmania.

Protection Agency (EPA). There are a further 33 smaller plants (treat less than 100kl per day) regulated by councils which have different license conditions.

³ Most recently experienced in January 2016.

⁴ Source of population numbers: Tasmanian Government: Department of Treasury and Finance Population note (ABS Cat No 3101.0 released 17 December 2015 and Statistics New Zealand: New Zealand in Profile: 2015

In order for this to occur, external contributions from the Commonwealth and Tasmanian Governments are needed. External funding from government would be supplemented by contributions from Tasmania's local councils, as owners of TasWater, Tasmanian water and sewerage customers through modest and manageable price increases, and TasWater through further savings and accessing its remaining funding capacity.

The implications of not progressing these major projects over the next 10 years is that TasWater will be forced to upgrade existing outdated infrastructure thereby perpetuating inefficiencies that arise from having too many assets and hindering economic growth.

Detailed business cases confirming the economic and social benefits of each of the major projects will be developed, providing an opportunity for reassessment at each major milestone to ensure the envisaged benefits are delivered.

Detailed information is provided below on each of the major water and sewerage infrastructure challenges in Tasmania.

Summary of Major Projects

Launceston Sewerage Improvement Project (LSIP)

Seven treatment plants service a population of approximately 75,000⁵ people in the greater Launceston area.

The aging infrastructure has insufficient capacity, regularly results in inadequately treated, non-compliant effluent entering Launceston's key waterways with several generating odour complaints from the community.

The seven plants are a major contributor of nutrients to the Tamar estuary, providing an estimated 22 per cent of total nitrogen and 35 per cent of total phosphorous load⁶. The nutrients cause environmental harm in the North Esk and South Esk Rivers, as well as the estuary and restrict recreational opportunities, such as swimming and boating.

The visibility of the plants, impacts on the environment, recreational activities along with periodic odour complaints have resulted in a high level of community outrage.

The presence of several plants (Legana, Riverside and Prospect Vale) is restricting residential development, with Legana being one of the fastest growing (3.3 per cent) communities in the state.

The options analysed included upgrading the individual plants; partial rationalisation and full rationalisation. The full rationalisation provides the highest financial cost-benefits and would deliver the largest social, environmental and economic benefits. The project has \$1.9 million committed for preliminary design, constructability and feasibility assessment, due for completion in June 2016.

The LSIP is estimated to cost \$280 million. The project would be delivered in two major stages with Stage 1 scheduled for delivery from 2016 to 2020 and Stage 2 delivered from 2024-2025.

⁵ NRM North, *Tamar Estuary & Esk Rivers Catchments Water Quality Improvement Plan 2015*, page 82.

⁶ NRM North, *Tamar Estuary & Esk Rivers Catchments Water Quality Improvement Plan 2015*, page 3.

Launceston Combined Drainage System Strategy (LCDSS)

Launceston operates one of the last major combined drainage systems in Australia, with some parts over 150 years old. The sewerage and stormwater are combined in a common pipe network and during low rainfall events the combined inflows are treated at the sewerage treatment plant.

However, during heavy rainfall the system overflows, and diluted, untreated sewage is released into the Tamar and North Esk rivers and sometimes into residential streets. The amount discharged to the rivers depends on the rainfall across the catchment. For example, in 2013, a wet year, there was more than 3,000 million litres of combined sewage that discharged into the rivers.

Combined sewer overflows are likely to contribute close to a third of the faecal contaminants entering the Tamar River, along with significant amounts of nitrogen and phosphorous, increasing the likelihood of algal blooms. The Tamar River is known to have pollutant loads more than 100 times above primary contact recreational use and eight times above secondary recreational use.

There is active community and stakeholder pressure to reduce the impacts the combined system has on the river.

A range of measures are currently being considered to improve how the combined system operates, such as additional storage of combined flows during rainfall events, screening, increasing flow to Ti Tree Bend treatment plant and separation of stormwater and sewage by laying new sewerage pipes.

The estimated cost of the LCDSS is up to \$150 million, depending on which measures and/or improvements are undertaken.

Initial works are underway with \$500,000 of Australian Government Funding (from the Tamar River Recovery Plan). An improvement program, the details of which will be confirmed following these initial works, is expected to run from 2016 to 2024.

Hobart Sewerage Improvement Project (HSIP)

Five sewerage treatment plants service the western half of greater Hobart, around 180,000 people. The plants do not meet current environmental standards and many are nearing capacity.

The latest State of the Derwent Report⁷ indicates that over the period 2009-2014 “wastewater treatment plants contribute the majority of dissolved inorganic nitrogen and total phosphorus loads to the estuary.” This has an impact on the aquatic environment and species such as the EPBC-listed, critically endangered Derwent River Seastar and Spotted Hand Fish. Subsequently, there is high community concern about the environmental and social impacts of the wastewater discharges into the Derwent estuary.

The siting of several of the treatment plants is actively hampering economic development. The Macquarie Point plant (Hobart) sits on the edge of the \$1 billion Macquarie Point redevelopment. The redevelopment will be unable to reach its full potential unless the sewage treatment plant is removed.

The Cameron Bay (Berridale) plant sits in middle of the Museum of Old and New Art (MONA) precinct. MONA has commenced a \$21 million extension to the museum; they have been awarded

⁷ Derwent Estuary Program, *State of the Derwent Estuary 2015*.

the tender to revamp the adjacent caravan park into MONA Accommodation Berridale; and there are further plans for a \$75 million expansion to the museum and \$150 million casino and hotel in the next five to ten years.

The estimated cost of the HSIP is \$300 million. The project would be delivered in two major stages with Stage 1 scheduled for delivery from 2016 to 2020 and Stage 2 delivered from 2024-2025.

Devonport – Latrobe – Port Sorell (Pardoe) Sewerage Improvement Project (PSIP)

The Pardoe Sewerage Improvement Project is largely concerned with addressing growth and capacity issues in the area, however one of the plants discharges in the vicinity of the Narawntapu National Park, an important shark nursery and a number of marine farms.

The treatment plants at Port Sorell and Latrobe are not able to absorb the considerable growth in both towns, with Port Sorell experiencing 3 per cent growth per year over the last decade.

Latrobe sewerage treatment plant discharges into the Mersey River, a popular recreational waterway and overflows into Kings Creek causing considerable community angst.

The Pardoe sewerage treatment plant currently only services Devonport and is a regular source of community odour complaints. The plant provides primary treatment only of sewage, with a 1.8 km outfall into Bass Strait.

Options to be analysed include: upgrading each of the plants to contemporary standards (unlikely to be preferred option); partial rationalisation (Pardoe and Port Sorell) and full rationalisation using the Pardoe site. The analysis will consider the financial, economic, environmental and social dimensions.

The estimated cost of the PSIP is \$45 million. Project completion is estimated to be 2019-20.

Small Towns Water Supply Strategy

TasWater's Small Towns Water Supply Strategy is working through our small towns that either have permanent boil water notices due to bacterial contamination of water supply; or a do not consume notice due to metal or chemical contamination.

At the end of 2016-17 TasWater expects to have reduced the number of towns without safe drinking water from 27 down to eleven⁸. The remaining towns fall outside TasWater's financial, economic and social benefits assessment and require further assessment and community consultation.

The 11 remaining towns are very small, with less than 100 customers in each, stagnant or slowly declining populations, and with very limited economic potential.

Options under consideration include: small treatment plants, pipelines from other centres, tankering and water service replacement with water tanks as an absolute last resort.

The estimated cost of the Small Towns Water Supply Strategy is \$15 million and has an estimated timeframe extending to 1 July 2018.

⁸ Colebrook, Conara, Cornwall, Epping Forest, Gladstone, Gormanston, Herrick, Judbury, Mathinna, Rossarden and Wayatinah.