CITY OF HOBART

SUPPORTING INFORMATION

COUNCIL MEETING

OPEN PORTION OF THE MEETING

MONDAY, 24 NOVEMBER 2025
AT 4.00PM
VENUE: COUNCIL CHAMBER, TOWN HALL

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CITY OF HOBART

UNSOLICITED PROPOSALS

Policy and Guidelines

City of HOBART

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1 Authority and Application

Approver	Council
Author	Manager Rates, Procurement and Risk
Related Council Documents	This Policy should be considered in the context of the following strategies, plans, policies and procedures: • City of Hobart Capital City Strategic Plan 2023 • City of Hobart Code for Tenders and Contracts • City of Hobart Purchasing Policy and Guidelines • City of Hobart Economic Development Strategy • Council Policy - Probity Guidelines for the Consideration of Commercial Property Transactions • Council Policy - Leases to non-profit Organisations • Council Policy – Information Privacy • Council Policy – Prevention of Modern Slavery in Supply Chains • Council Policy – Local Preference Procurement • Council Policy – Procurement Policy • Council Policy – Community Requests for Council to Purchase Land • Council Policy – New Infrastructure Roads and Stormwater
References	*Local Government Act 1993 (Tas)* *Local Government (General) Regulations 2015* *Local Government (Highways) Act 1982* *Land Use Planning and Approvals Act 1993* *Urban Drainage Act 2015* *Water and Sewerage Industry Act 2008*
Date of next review	Xx xxxxx 2027
Previous policies replaced by this Policy	Nil

2 Definitions

Term	Meaning
Application Form	The Unsolicited Proposal Application Form (Appendix 1)
Evaluation Criteria	The criteria upon which Unsolicited Proposals will be assessed
Final Binding Offer	A formal proposal submitted by the Proponent at the conclusion of Stage 2 which is capable of acceptance by Council
Intellectual Property	Inventions, original designs and practical applications of ideas protected by statute law through copyright, patents, registered designs, circuit layout rights and trademarks; also trade secrets, proprietary know-how and other confidential information protected against unlawful disclosure by common law and moral rights and additional contractual obligations such as Confidentiality Agreements.
Probity Advisor	An advisor with specialist governance experience, including, where appointed, an external contractor
Proponent	The person or organisation that approaches Council with an Unsolicited Proposal and may submit an Unsolicited Proposal
Proposal Manager	The person, appointed by the CEO, with responsibility for coordinating Council input for the receipt and assessment of an Unsolicited Proposal
Proposal Evaluation Committee	A committee of senior Council representatives with responsibility for oversight of any specific Unsolicited Proposal
Unsolicited Proposal	An approach to Council from a Proponent with a proposal to deal directly with Council over a proposition, where Council has not requested the proposal. This may include proposals to build and/or finance infrastructure, develop Council owned land, provide goods or services, or undertake a major commercial transaction.
Value for Money	The overall value of a proposal to Council

3 Introduction

The City of Hobart (the City) is sometimes approached with ideas and business opportunities that are beneficial to the community. The City appreciates that new ideas and partnerships with those that share the City's vision are important to realising the City's strategic objectives, growth and development.

The City is committed to fostering innovation, economic growth and delivering social and environmental benefits for the community. The City is therefore committed to ensuring that Unsolicited Proposals (proposals) that are of benefit to the City and provide value are considered fairly, lawfully, consistently and are realised.

To achieve this, the City welcomes innovative ideas and proposals from the community, businesses and government agencies. This Unsolicited Proposals Policy (the Policy) provides a clear and transparent process for submitting proposals to the City and how they will be considered and evaluated. It also provides a clear process for the City and Proponents to work together to consider opportunities to develop and deliver innovative ideas, services and new infrastructure including on Council owned property.

What is an Unsolicited Proposal?

An unsolicited proposal is an idea or project submitted to the City without a formal request. These proposals can range from new infrastructure projects, proposals to develop Council owned property (including use, development, lease and/or purchase), unique goods or services to innovative solutions that benefit our community.

An unsolicited proposal is a new and innovative proposal that could assist the City to achieve its strategic objectives or satisfy a community need, which has not been requested by the City through its regular procurement or other processes.

Why Do We Have This Policy?

The City operates under the *Local Government Act 1993* (Tas), procuring goods, services, and works, and disposing of assets (including land and roads) through competitive processes to ensure value for money in a fair and transparent manner. The City is dedicated to probity and the procurement principles of value for money, ethical behaviour and fair dealing, encouraging open and effective competition, enhancement of the capabilities of local business and industry and regularly tests the market for these. It is equally dedicated to fulfilling the objectives as set out in the City's Capital City Strategic Plan 2023.

However, unsolicited proposals by their nature don't lend themselves to typical competitive processes.

The Policy outlines a step-by-step process for submitting and evaluating proposals. This includes criteria for evaluation, ensuring that all proposals are considered consistently, lawfully and fairly to achieve the highest value for money for the community.

4 Purpose and Objectives

The purpose of this Policy is to provide a structured and transparent process for evaluating and managing proposals that are submitted to the City without a formal request. The main objectives of this Policy are to:

- **Encourage Innovation and Investment**: by stimulating business/private investment, creativity and innovative ideas that can benefit the community and support the City's strategic objectives.
- **Ensure Transparency and Governance**: by considering proposals in a consistent, transparent, and lawful manner.
- **Deliver Public Value**. by ensuring the outcomes are always in the best interests of the community and aligned with the City's strategic objectives.
- **Maintain Probity and Integrity**: by considering proposals fairly, through ethical behaviour and decision making, managing conflicts of interests and confidentiality.
- **Effective Evaluation**: by assessing proposals on a consistent set of criteria, allowing the City and the Proponent to work together effectively and transparently.
- **Maintain Public Confidence**: that proposals will be managed appropriately.
- **Maximise Public Assets**: ensuring the highest and best use of the land and best use of public assets by considering innovative ideas that can stimulate economic development and deliver high-quality services and outcomes for the community.
- **Achieve Value for Money**: as a consistent outcome from proposals for the community.
- **Ensure Legislative Compliance:** by ensuring that the proposals process is not used to circumvent the City's regular procurement, expressions of interest or disposal processes and their requirements as set out in legislation.

5 Principles

The following key principles will be used by the City to guide consideration of Proposals in accordance with this Policy:

- **Public Interest**: The proposal should support the City's strategic objectives as set out in the City's Capital City Strategic Plan 2023 and deliver tangible benefits.
- **Transparency and Accountability**: The process for evaluating proposals will be transparent, with clear evaluation criteria and conditions. This helps maintain public confidence and ensures accountability in decision-making.
- **Value for Money**: The proposal should offer good value for money, considering both the financial and non-financial benefits. This includes assessing the cost-effectiveness

and potential economic impact.

- **Uniqueness**: The proposal should offer a unique or innovative solution that is not readily available through standard procurement processes. It should provide a distinct advantage or address a specific need.
- **Probity and Fairness**: The evaluation process should be conducted with integrity, impartiality, and fairness. This includes managing conflicts of interest, Intellectual Property, confidentiality and ensuring that all Proponents are treated equally.
- **Feasibility and Viability**: The proposal should be feasible and viable, with a clear plan for implementation. This includes assessing the technical, financial, and operational aspects of the proposal.
- **Risk Management**: The City will consider the risks associated with the proposal and ensure that appropriate risk management strategies are in place. This includes evaluating potential legal, financial, and operational risks.
- **Community Engagement**: Where appropriate, the City will engage with the community to gather feedback and ensure that the proposal has broad support.

6 Scope

This Policy applies to all proposals submitted to the City with an estimated value over $10,000 ex GST. The City has the sole discretion as to when and if this Policy applies, including if and when an exclusive negotiation will apply to a Proponent.

This Policy covers the following types of proposals:

- **Infrastructure Projects**: Proposals to build or finance new infrastructure for the community, such as roads, bridges, parks, or public buildings.
- **Goods and Services**: Proposals to provide specific goods or services to or on behalf of the City, which are not covered by existing procurement processes.
- **Commercial Transactions**: Commercial proposals/transactions that could involve the sale, lease, use and/or development of Council owned land and/or assets.
- **Council land:** for the City to consider if landowner consent to lodge a development application should be given to develop Council owned land.
- **Innovative Ideas**: Unique and innovative projects, goods or services that offer benefits to the community and align with the City's strategic objectives.

7 Roles and Responsibilities

7.1 Delegate

The appropriate financial delegate is responsible for the approval of any unsolicited proposal. In most circumstances this will be the Chief Executive Officer but could be the Network Director if a delegation exists for the Network Director and if so, the total cost of the proposal is within the financial delegation of the Network Director.

If the detailed proposal is to be considered by Council, a Council resolution will be required prior to committing the City to a contractual offer. If the unsolicited proposal relates to the procurement of goods, services or works for a contract over $250,000 (ex GST), a decision of Council will be sought that, due to extenuating circumstances, Council does not proceed to public tender for the project, goods or services under contemplation pursuant to the requirements of the *Local Government (General) Regulations 2015*.

7.2 Proposal Manager

The Proposal Manager will be appointed by the Chief Executive Officer and will be the contact point for Proponents and is charged with leading the evaluation process in conjunction with the Proposal Evaluation Committee.

7.3 Proposal Evaluation Committee

An Unsolicited Proposals Evaluation Committee will be established for Stage 2 consideration of proposals to oversee the assessment and other process steps for Stage 2 and Stage 3.

The Committee will have at least three members (in addition to the Proposal Manager), one of which will be appointed as Chairperson. The Chairperson should be a Manager at a minimum and at least one member should be a technical / subject matter expert.

For leasing, licensing and Council owned or managed land transactions, the legal and governance group should be engaged at the earliest possible opportunity and prior to negotiations being undertaken.

7.4 Expert Advisors

Expert advisers may be appointed by the City, as required, to provide specialist advice to assist the City in considering a proposal(s), subject to probity requirements.

Expert advisors will adhere to all governance, conflict of interest, confidentiality and probity requirements.

7.5 Probity Advisor

Where the nature of the proposal warrants it, proposals that progress to Stage 2 will have a probity advisor appointed who reports to the Chair of the Proposal Evaluation Committee and will be available to Proponents to discuss probity related matters. The role of the probity adviser is to monitor and report on the application of the probity during the assessment process. The Probity Advisor will:

- Provide a probity report to be considered by the Proposal Evaluation Committee before the decision to proceed to the next step (or otherwise).
- Escalate probity concerns to the Chair of the Evaluation Committee.

8 Submission Process

A three-stage process will be followed to guide the preparation of and assessment of proposals:

Stage One – Initial Proposal

Stage Two – Detailed Proposal

Stage Three – Contract Negotiation

8.1 Pre-Submission Concept Review

Before submitting a proposal, Proponents can meet with the CEO and/or a Proposal Manager, and if applicable a member of the Legal and Governance Group, in order to explore whether the proposal is likely to meet the Stage 1 assessment criteria and to guide Proponents in their decision regarding whether to lodge their proposal. The City may provide feedback at this stage as to whether it considers that the proposal, as presented, is consistent with this Policy. However, it is the Proponent's decision as to whether it proceeds with making a formal Stage 1 submission.

8.2 Stage 1 Initial Submission and Preliminary Assessment

When a formal proposal is submitted under this Policy, the Council will conduct a preliminary assessment to determine if it qualifies as an Unsolicited Proposal and if there is sufficient justification to proceed to a Stage 2 assessment. The City reserves the right to decide, at its discretion, whether to further consider proposals beyond this stage.

The goal of Stage 1 is to allow a Proponent to provide the City with a high-level overview of their proposal, enabling the City to form a preliminary view on:

- Whether the proposal may be considered under this policy
- Whether the proposal should be considered further
- Whether the proposal is lawful

Proponents should complete an Unsolicited Proposals Application Form, available for download from the Council's website, or from Appendix 2, and include any additional information they wish to provide to the City.

Lodgment

A proposal should be addressed to the Office of the Chief Executive Officer and submitted 'private and confidential' via one of the following ways:

- Online form at: www.hobartcity.com.au

- Emailed to coh@hobartcity.com.au; or
- Mailed to GPO Box 503, Hobart TAS 7001.

Once a proposal has been submitted, Council will formally acknowledge receipt of the proposal and provide contact details of the Proposal Manager within 14 days. Council's intention is this person will be the Proponent's only point of contact in Council regarding the proposal.

Preliminary Assessment Process

Once a proposal is submitted in accordance with this Policy and deemed to have sufficient information by the Chief Executive Officer (or nominee), the Proposal Manager will convene a Proposal Evaluation Committee. This Committee, comprising relevant officers and experts, will review and assess the proposal.

The Committee will assess if the proposal meets the criteria in section 8.5 of this policy and prepare an outcomes report for the Delegate. If the Delegate is the Council, a report will be prepared for the next closed Council meeting seeking a Council resolution.

The Proponent will be notified in writing of the City's decision. If endorsed to progress to Stage 2, the Proponent will receive:

- Notification of approval to proceed to Stage 2
- A copy of the Council's resolution (if applicable)
- Terms and timeframes for Stage 2, including any exclusivity period
- Relevant information for further consideration

Stage 1 is expected to be completed within three months from when all necessary information is received by the City. Any endorsement at Stage 1 is "In Principle," allowing the proposal to proceed to Stage 2.

In the assessment of Unsolicited Proposals there is need for high levels of accountability and transparency. However, there is also a need for some information to be kept confidential particularly in relation to Intellectual Property. All proposals submitted will be kept confidential at Stage 1 of the assessment process. However, Information that is shared with Council is subject to application for assessed disclosure under the Right to Information Act. Council cannot guarantee that information shared with Council will not be subject release under RTI. Council will abide by confidentially principles unless it is required by law to disclose.

Period of Exclusivity

Council may, at its absolute discretion, enter into a period of exclusive negotiation with a Proponent. During this period of exclusivity, Council will use its best endeavours and in accordance with any other law, to keep the proponent's intellectual property protected and confidential.

8.3 Stage 2 Detailed Proposal

Following progression of a proposal to Stage 2 of the process, the Proponent and the City

will work cooperatively in the development and assessment of a detailed proposal, which may require a degree of preliminary negotiation on key issues, subject to the nature of the proposal.

Stage 2 involves further evaluating the proposal's feasibility, delivery method, value for money, and the outcomes it will provide for the City and the community. The following will be considered during Stage 2:

- The value for money the proposal offers
- The legal, technical, and financial feasibility of the proposal
- The best structure for delivering the proposal's outcomes
- A cost/benefit analysis – benefits for the community, including any minority or marginalised sector of the community – not just financial / economic or otherwise. The City refers proponents to the Cost Benefit Analysis guidelines provided by the Tasmanian Department of Treasury and Finance at: https://www.treasury.tas.gov.au/Documents/Revised%20Capital%20Investment%20Guidelines%20-%20March%202025.pdf
- Whether the proposal or parts of it should be subject to a competitive bidding process
- The appropriate allocation of risk
- The proposed delivery method

The Proponent must develop a detailed proposal capable of being a Final Binding Offer consistent with the requirements outlined at the end of Stage 1. They are also required to provide any additional information as requested and participate in meetings and respond to communications from the Proposal Manager.

The Proposal Manager will convene meetings with the Proposal Evaluation Committee, and any experts as required. The Proposal Evaluation Committee may meet with the Proponent, request additional information as needed.

A detailed confidential report from the outcomes of Stage 2 will be prepared by the Proposal Steering Committee for the consideration of the Delegate.

The Proponent will be informed in writing of the resolution, which could be:

- The proposal will proceed to negotiation and contract on an exclusive basis
- The proposal will not continue on an exclusive basis but warrants a competitive market process
- The proposal is not suitable for further consideration, ending its consideration under this Policy.

Community Consultation

The City may require that a proponent seek the views of the community on a Proposal. The community engagement outcomes and a report will be provided to the Delegate as part of

the assessment process. The City also reserves the right to complete its own community engagement process in respect to a proposal.

8.4 Stage 3 Contract Negotiation

The purpose of Stage 3 is for the City and the Proponent to negotiate a suitable contract for implementing the Proposal, if appropriate and there is no further statutory process involved.

At the start of Stage 3, the Proposal Manager will inform the Proponent about the process and protocols for developing a contract or whether any further statutory processes are required.

Once the City and the Proponent have agreed in principle on a contract, the Proposal Manager will notify the Proponent in writing of one of the following outcomes:

- The Council agrees to the contract terms and will proceed to execute it.
- The Council agrees to the contract but with specified variations or conditions.
- The Council does not agree to enter into the contract and may consider pursuing the Unsolicited Proposal through another process, such as a competitive bidding process.
- The Council does not agree to enter into the contract, and its consideration of the proposal under this Policy is now concluded.

Statutory Processes

For certain types of proposals, such as those involving the development of Council-owned property, the proposal may require regulatory approvals such as planning approval and building approval. When those processes are being progressed, the Council (or a delegate) will assess and determine the proposal against the regulatory requirements which apply; any support by the Council as an elected body is a separate process. More information about these processes can be found on the City's website at: https://www.hobartcity.com.au/Development however this is not considered to be an exclusive or exhaustive list.

A preliminary step to lodge a planning application on land which is owned or administered by the Council is for the CEO to consent to that application being made. There is no appeal process available to the proponent for the granting of this consent, and the process of granting this consent does not guarantee an approval for planning or regulatory purposes.

If the proposal involves land dealings and the relevant land is categorised as public land, then other legal processes are required to be considered including legislated rights for third party objections. If proposals relate to land only leases or licences where the proponent plans to construct infrastructure on the land, then the proposal must address how that infrastructure is to be dealt with at the end of the Term of any lease or licence and whether there is any depreciation liability on Council.

Generally, if the CEO is willing to grant consent to lodge a planning application in relation to the proposal, it does demonstrate a reasonable level of interest in the project by the City and it is acknowledged that this requires the proponent to incur costs. However, the approval to carry out a development, if a planning permit is issued, is subject to other approvals.

If the proposal relates to Council owned or managed land and requires the Proponent to obtain any reports, surveys, valuations or other supporting information to support their proposal, or any costs incurred by Council in assessing the proposal, then these costs are exclusively borne by the Proponent. The Proponent is also exclusively liable to cover the costs of any and all legal, financial, insurance, outgoings, or other associated costs relating to the proposal and Council's consideration of the proposal, regardless of the type of proposal being submitted. If the proposal relates to a not-for-profit venture, then Council may elect to negotiate the sharing of costs at its absolute discretion, however, this should not be assumed.

8.5 Evaluation Criteria

The criteria for the preliminary assessment of Proposals at Stage 1 of the process is outlined in Table 1 below. Additional criteria may be added by the City. Assessment will be based on the proposal satisfactorily meeting each criterion.

Table 1: criteria for assessment

Evaluation Criteria	Description	Weighting
Public Need	Does the proposal align with the public interest, satisfy an existing community need and provide clear community benefits?	20%
Value for Money	Does the proposal offer good value for money and community benefit, considering both financial and non-financial benefits and is affordable for the City?	20%
Innovation and Uniqueness	Is the proposal innovative or unique, offering solutions not readily available through standard procurement processes? Proposals not typically considered unique are outlined in Appendix 3.	15%
Feasibility and Viability	Does the proposal provide a commercial market return to Council. Is the proposal legally, regulatory, technically feasible, complying with relevant legislation?	15%

Evaluation Criteria	Description	Weighting
Alignment with Strategic Objectives	Does the proposal align with the Council's strategic objectives, values and mission.	10%
Risk Management	Does the proposal include a thorough risk assessment and appropriate mitigation strategies?	10%
Capability and Capacity	Does the proponent demonstrate the capability and capacity to deliver the proposed project or service with a clear implementation plan?	5%
Community Support	Does the proposal have the potential for broad community support and engagement?	5%

Notes:

- The weighting column indicates the relative importance of each criterion. The City may adjust these weightings based on its priorities and strategic objectives.
- Each proposal will be scored against the criteria on a scale of 0-10 as set out in table 2 below, with the total score to determine the proposal's overall suitability.

The proposal will be assessed on the basis of scores allocated by the Proposal Evaluation Committee by consensus relating to each criterion and then weighted as detailed in Table 1 above.

The scoring will be based on the degree of achievement of the proposal against the criterion.

If the proposal achieves a weighted overall score less than 6, the proposal will not progress to the next Stage in the assessment process.

Table 2: scoring matrix

Score	Description
10	Full achievement of the specified requirements for the criterion
8 – <10	Sound achievement of the specified requirements for the criterion
6 – <8	Reasonable achievement of the specified requirements for the criterion
4 – <6	Satisfactory achievement of the specified requirements for the criterion
2 – <4	Minimal achievement of the specified requirements for the criterion

Score	Description
>0 – <2	Unacceptable achievement of the specified requirements for the criterion
0	Totally deficient and non-compliant for the criterion

9 Submission Terms and Conditions

The following conditions are to be adhered to by all Proponents making a proposal to the City.

Ethics and Conduct

Proponents must comply with ethical standards and conduct set out in section 10 of this Policy.

No obligation to consider Proposals

The City is not obliged to consider any proposal and may reject a proposal at its discretion.

Format of Proposals:

An unsolicited proposal must be lodged with the City using the Form at appendix 1.

Enquiries

Proponents must direct all enquiries to the Proposal Manager to maintain consistency and transparency in the proposals process. The City reserves the right to discontinue the process if the proponent discusses the proposal with the City's Officers, staff or Elected Members outside the provisions of this Policy.

Confidentiality

The City and the Proponent must treat the proposal in confidence where appropriate except to the extent required by law.

Conflict of interest

Proponents must include details of any known circumstances or relationships that could lead to an actual, potential or perceived conflict of interest, whether monetary or otherwise, in their proposal. If such a conflict exists, the Proponent must inform the City in the Application Form and explain how they plan to address it.

If the Proponent becomes aware of an actual, potential or perceived conflict of interest during the process, they should notify the Proposal Manager as soon as possible. Also include potential.

No legal relationship

Hobart City Council is under no contractual or other legal obligation to the Proponent with respect to the receipt, assessment, consideration, acceptance or rejection of any proposal or the failure to receive, assess, consider or accept any proposal. No legally binding contract exists or is to be implied between Hobart City Council and the Proponent unless and until a formal contract document is signed by both parties.

In applying to Council for assessment under this Policy, the Proponent agrees that it is prohibited from making any claim for any expenses, loss of opportunity or other loss or damage it may incur in relation to preparing, lodging, demonstrating, negotiating, disclosing or otherwise participating in the process, including in relation to Council's assessment and decision. To this end, a Proponent is deemed to have indemnified the Council to the full extent permitted by law.

Proponents are also prohibited from separately engaging with and/or lobbying elected Council members about the proposal during the period in which Stages 1 to 3 inclusive are being conducted.

Council materials

A Proponent must return any document or materials provided to the Proponent by the City during the proposal assessment process promptly on request and Council material is only to be used for progressing a proposal in accordance with this Policy. Any material provided to the Proponent by the City in confidence must be kept confidential.

Cost of proposal

A Proponent is responsible for covering its own costs when preparing, discussing, and negotiating any proposal with the City. The City will neither be responsible for, not pay for, any expense or loss incurred by a Proponent in making a proposal or providing additional information or clarification through the assessment process.

Conflict with procurement policies

Council's Code for Tenders and Contracts, Purchasing Policy and Guidelines, Procurement Policy and related procedures do not apply to an unsolicited proposal to the extend of any inconsistency with this Policy.

Legislative obligations

The City may have legislative obligations related to a particular proposal, and this policy is not intended to override or circumvent those obligations. The processes outlined in this policy are separate from, and do not override, other legislative processes that a Proponent may need to follow, such as the statutory assessment of a development application.

General Acknowledgements

Proponents acknowledge that when submitting a proposal under this Policy that the City:

- At any stage, if it determines that a proposal does not meet the necessary criteria, may approach the market regarding the proposal's subject matter, cease consideration of the proposal, and withdraw from any negotiations with the proponent.
- May amend, vary, or revoke and replace this Policy at any time.
- May accept or reject any Proposal, all or in part.
- Subject to any exclusivity period, may negotiate with any party concerning the subject matter of a Proposal as necessary.
- May discontinue negotiations with any Proponent.
- May undertake any due diligence or checks on any Proponent.
- May include the Proponent's name, and/or company name and details in Council reports and, subject to any exclusivity period and any agreement with the proponent, make it public.
- Accepts no responsibility for any Proponent failing to undertake any investigations or understanding any matters that may impact on its proposal.

10 Probity – Ethics and Conduct

The primary objective of this policy is to ensure the integrity of the assessment process. The City will engage a Probity Advisor to oversee the proposal assessment process.

10.1 Ethics and Conduct – City of Hobart Officers

In considering Proposals the City's officers will comply with the following ethical standards of behaviour:

- Actual, potential or perceived conflicts of interest will be declared and appropriate measures put in place to appropriately manage any actual, potential or perceived conflicts of interest, monetary or otherwise.
- Avoiding any situation which is, or which may become or which may be perceived as being a conflict of interest with the person's official duties.
- Accurate records of all dealings in respect to the proposal will be maintained during and after the process.
- Declining to accept any payments, gifts, gratuities, entertainment/hospitality and other benefits offered for the discharge of official duties.
- Avoiding any relationship with a Proponent, financial or otherwise, which could be perceived as unfair or improper influence on their judgement, or which could expose the City to allegations or perceptions of impropriety or unwarranted preference or unfair dealings or which could represent a breach of legislation.

- Ensuring that confidential information is protected and not disclosed (except for disclosures to Expert Advisors if required under this Policy and where disclosure is required by law).

10.2 Ethics and Conduct – Proponents

When submitting a proposal, a Proponent is to:

- At all times act in observance of all laws.
- Must not attempt to contact the City's officers or Elected Members not nominated as Contact Person to deal with enquiries.
- Not seek to influence the proposals process by any improper means.
- Declare any matter or issue which is, or which may lead to or which could be perceived as, a conflict of interest regarding their participation in the proposals process, immediately upon the Proponent becoming aware of the matter or issue.

10.3 Advice

For the avoidance of doubt, either party is entitled to obtain independent legal, financial and/or insurance advice from suitably qualified professionals at any stage of the process, providing that all disclosures remain confidential and respect the other party's information, confidentiality and intellectual property.

11 Reporting

Information on all Proposals accepted under this Policy may be reported in the City's Annual Report if the City is required to do so under legislation.

12 Monitoring, Evaluation and Review

12.1 Review

This Policy will be reviewed every two years or more frequently as required.

12.2 Amendment Table

Date of Issue	Description of Change
24/03/2025	Initial Draft for consultation

UNSOLICITED PROPOSALS PROCESS

STAGE 1
INITIAL PROPOSAL

Proponent actions
- Submit completed Application Form and any further information.
- Submit any further information or engage in discussions that may be requested.

Council actions
- Acknowledge receipt of Application Form.
- Appoint a Proposals Manager and advise the Proponent within 14 days.
- Determine if sufficient information has been provided to be considered under the policy and in terms of exclusivity.
- Convene a meeting of the Proposal Evaluation Committee.
- Determine whether the proposal meets the criteria for it to be considered under the policy.
- Prepare a report to the Delegate with the decision of the Proposal Evaluation Committee.
- Advise the proponent of the City's decision.

Possible outcomes
- That the proposal is not suitable for further consideration and is now closed.
- That the proposal may form the basis for a competitive bidding process.
- That the proposal will proceed to Stage 2.

STAGE 2
DETAILED PROPOSAL

Proponent actions
- Submit a detailed proposal.
- Provide additional information as requested.
- Attend meetings as requested and respond to communications from the Proposal Manager.

Council actions
- Establish the Stage 2 framework and notify the Proponent.
- Arrange meetings of the Proposal Evaluation Committee and any experts.
- Arrange meetings with the proponent and request further information from the Proponent.
- Arrange the preparation of a detailed report on the proposal for the Delegate's consideration.
- Advise the proponent of the City's decision.

Possible outcomes
- That all or part of the proposal will proceed to Stage 3 on an exclusive consideration basis.
- That all or part of the proposal should not continue to be considered on an exclusive basis but that all or part of the proposal warrants a competitive bidding process.
- That all or part of the proposal is not suitable for further consideration and its consideration under this Policy is now at an end.

STAGE 3
CONTRACT NEGOTIATIONS

Proponent actions
- Negotiate contract terms.

Council actions
- Advise the proponent of the process and protocols for the development of a contract.
- Negotiate the contract.
- Submitted the agreed contract to the Delegate to agree to be executed.
- Advise the proponent of the City's decision.
- Execute the contract if approved.

Possible outcomes
- That the Council agrees to the terms and conditions of the contact and will proceed to execute it.
- That the Council agrees to the contract, subject however to specified variations or conditions.
- That the Council does not agree to enter into the contract but instead determines to pursue or consider pursuing the unsolicited proposal through another process.
- That the Council does not agree to enter into the contract and that its consideration of the proposal under this Policy is now at an end.

Appendix 2 – Application Form

Unsolicited Proposals Application Form

About this form

The City is committed to fostering innovation, economic growth, delivering social and environmental benefits to the community and ensuring that Unsolicited Proposals that are of benefit to the City and provide value are realised.

Please use this form if you would like to submit a proposal to the City. The information you provide will allow us to determine whether the proposal meets the definition of an unsolicited proposal set out in the City's Unsolicited Proposals Policy.

How to complete this form

1. Please ensure that all fields have been filled out.
2. Please attach any supporting information to this Application.

What happens next?

The City reserves the right to request further supporting information should they require it for assessment of proposals.

PART 1: Applicant Details	
Name:	
Company Name (if applicable):	
ABN (if applicable):	
Contact Person (Full Name):	
Contact Person (Title/Position):	
Address:	
Postal Address (if different from above):	
Contact Phone Number:	Email Address:

PART 2: Proposal
Title of Proposal:
Please provide a brief description of the proposal, including its objectives and key components:

Alignment with Council Objectives
Please advise how the proposal aligns with the City's strategic objectives (how does the proposal support the Council's priorities and community needs?)

Benefits to the Community
What are the anticipated benefits of the proposal to the community? (Describe the social, economic, environmental or other benefits)

Financial Information	
Estimated Cost of Proposal	
Funding Source(s):	
Financial Contribution Requested from Council:	
In-kind Contribution	
Other Financial Contributions (list any other sources of finding or financial support)	

Implementation Plan
Proposed timeline (please provide a timeline for the implementation of the proposal, including key milestones):

Key Personnel: (list the key personnel involved in the proposal and their roles):
Risk Management Plan (outline the potential risks and mitigation strategies):
Validity Period
Please advise how long the proposal is valid for:

Conflict of Interest
You must disclose details of any known circumstances that may give rise to an actual, potential or perceived conflict of interest, monetary or otherwise, in submitting an Unsolicited Proposal. I declare:
☐ Yes – I do have a conflict of interest. (Provide Details)
☐ No – I do not have a conflict of interest
☐ I am uncertain if I have a conflict of interest and would like to discuss this further with Council. (Provide Details)

Right to Information and Lawful Disclosure of Information or Reporting Obligations
I declare that I have been informed that information that I share with Council may be

subject to assessment under the Right to Information Act or other lawful requirement for disclosure.

☐ Yes – I am aware that Council will as appropriate use their best endeavours to keep the information I share with them about the proposal confidential, however Council may be required by law to make disclosures of that information or report on that information in reports or publications without the need to obtain my consent.

PART 3: Declaration

In signing and submitting this proposal, the Proponent acknowledges that they have read and understood the contents of the City's Unsolicited Proposals Policy and agree to abide by the terms and conditions contained therein.

☐ I declare that the answers, information and documentation provided are true and correct.

SIGNATURE: _____ DATE: _____

PART 4: Privacy and Personal Information Protection Notice

Purpose of Collection:	For assessment of Proposals.
Intended recipients:	City of Hobart staff and Elected Members.
Supply:	Voluntary. The information supplied in this application will enable an unsolicited proposal to be assessed by the City of Hobart.

The personal information that Council is collecting from you is deemed personal information for the purpose of the *Personal Information Protection Act 2004*.

Lodgment Details

Please submit the application form, together with supporting information via:

- Online form at: www.hobartcity.com.au
- Emailed to coh@hobartcity.com.au; or
- Mailed to GPO Box 503, Hobart TAS 7001.

For more information or to enquire about your application, please contact the Office of the Chief Executive Officer.
Phone: 03 6238 2711
Email: coh@hobartcity.com.au

Or visit the City's website at: https://www.hobartcity.com.au/Business

Appendix 3 – Proposals Not Typically Considered Unique

Item	Description
1.	Proposals to directly purchase or acquire Council owned property, unless presenting a unique opportunity.
2.	Proposals from Proponents with an existing Council license or contract seeking to bypass a future public tender or request for quotation process.
3.	Proposals for extensions/variations to existing contracts/leases, or the next stage of a staged project on the basis that the contractor is providing continuing or extensions of existing goods, services or works.
4.	Proposals seeking to develop land that is not owned by Council or the Proponent.
5.	Proposals that identify the proponent's experience, skills or capability of personnel as the only unique characteristic.
6.	Proposals to provide widely available goods, services or works to the City.
7.	Proposals seeking only to change Council policy that have no associated project.
8.	Proposals for consultancy services.
9.	Proposals for projects where the tender or procurement process has formally commenced, whether it has been released to the market or not.
10.	Proposals that are early concepts or lack detail.
11.	Proposals seeking grants or loan guarantees.
12.	Proposals seeking Council support for a 'pilot' program or trial.
13.	Proposals seeking to stop or suspend another Council process (e.g., compulsory acquisition).
14.	Proposals seeking an exclusive mandate, or exclusive rights over a Council asset, for a period to develop a feasibility study.
15.	Proposals that have been rejected by a lawful resolution of the Council in the past 3 months.
16.	Proposals that seek to undermine the statutory or regulatory processes of the Council, including but not limited to its requirements for procurement, property,

Item	Description
	regulatory functions, planning, or other lawful functions ordinarily carried out by Council acting in its capacity as a government authority.

MEMORANDUM OF UNDERSTANDING

Between

HOBART CITY COUNCIL

and

DEPARTMENT OF STATE GROWTH

Memorandum between	Hobart City Council
	Contact Person: Phone: Email:
and	Department of State Growth
	Contact Person: Phone: Email:

DRAFT

1. Introduction and Acknowledgement

1.1 This Memorandum of Understanding (**MOU**) is entered between Hobart City Council (**Council**) and Department of State Growth (**DSG**).

1.2 On 21 October 2025 an Order was made under the *State Policies and Projects Act 1993* for the development of the multipurpose stadium at Macquarie Point (the project) was granted subject to conditions. A copy of that Order is annexed hereto and marked **Attachment A**

1.3 The Order declares the project as a project of State significance under the *State Policies and Projects Act 1993* and allows the project to proceed on conditions as if those conditions were imposed on a permit issued under the *Land Use Planning and Approvals Act 1993* (**LUPA**).

1.4 The Planning Authority for the relevant municipal area via officers authorised pursuant to the provisions of LUPA is responsible for the enforcement of the applicable planning scheme including compliance of any use and development with relevant permits granted within the municipal area.

1.5 It is acknowledged that enforcement of the conditions of the permit will require substantial additional resourcing in exceedance of the ordinary enforcement resources of the Council.

1.6 In response to the additional requirements for resourcing, it has been agreed that the Chief Executive Officer of the Council (being the General Manager as appointed by the Council

pursuant to Section 61 of the Local Government Act 1993) will authorise those persons particularised in **Attachment B** for the purposes of undertaking limited enforcement activities within the municipality with respect to the Order.

1.7 The purpose of the MOU is to outline the scope of the authorisation to be granted to the Department of State Growth by the Chief Executive Officer and the responsibilities of the parties with respect to that authorisation

1.8 It is acknowledged that notwithstanding the grant of authorisation under LUPA as proposed in this MOU, the "relevant regulator" for the purposes of the terms of the Order will remain Council and accordingly all requirements under the Order with respect to consultation with the relevant regulator must be undertaken with the Council.

1.9 Whilst the MOU is not intended to be legally binding, both parties agree to work together to fulfil the terms of this MOU.

2. Terms

2.1 This MOU will commence on the day it is executed on behalf of both Parties.

2.2 This MOU will be reviewed every two years, or as required, to ensure it continues to meet the needs of both Parties. Its terms may be varied, to ensure it continues to meet the needs of both Parties. Its terms may be varied by mutual agreement in response to changes in governing legislation.

3. Actions of the Council

3.1 The Chief Executive Officer of the Council (being the General Manager as appointed by the Council pursuant to Section 61 of the Local Government Act 1993) agrees to authorise the persons particularised in Attachment B as Authorised Officers pursuant to section 65I of LUPAA for the limited purpose of enforcing certain conditions of the permit more fully particularised at clause 3.2

3.2 The person(s) nominated to be authorised pursuant to clause 3.1 are authorised for undertaking all relevant and appropriate enforcement activities including issuance of any notices and exercise of any powers pursuant to Part 4 Division 4A and 4B of the Act with respect to the relevant conditions of the permit as specified in Attachment B.

4. **Responsibilities of DSG and Authorised Officers**

4.1 The DSG and any officers authorised pursuant to the terms of this MOU:

(a) Acknowledge the legislative obligation imposed upon the Planning Authority to, within the ambit of its power, observe, and enforce the observance of, the planning scheme in respect of all use or development undertaken within the area to which the planning scheme relates and the conditions and requirements of any relevant permits granted;

DRAFT

(b) Agree to take responsibility for fulfillment of that obligation on behalf of the planning authority by taking such relevant enforcement activities with respect to the scope of their authorisation including by not limited to:

(i) Management of and responding to enquiries from the public with respect to compliance with the permit;
(ii) Investigating alleged breaches of the permit;
(iii) Issuing relevant notices and orders with respect to detected breaches of the permit, where appropriate;
(iv) Issuing infringement notices where appropriate
(v) Undertaking prosecutions where appropriate
(vi) Responding to notices issued under section 63B of the LUPAA.

4.2 The DSG will nominate a contact person who will be responsible for responding to Council requests for information regarding compliance with the terms of the Order. The contact person must take all reasonable steps to:

(a) Ensure the information provided is true and correct (including obtaining expert opinion to verify at their own cost if necessary or appropriate to do so)
(b) Ensure the information requested is provided within a timely manner in the context of the request.
(c) If the contact person nominated is an agent of the proponent (external to the DSG) the DSG will remain responsible for ensuring that contact person complies with the terms of this clause on behalf of the DSG.

AUTHORISATION

Signed for the Hobart City Council by:

_____

Michael Stretton

General Manager

Date:

Signed for Department of State Growth by:

_____

[*insert name***]**

Secretary, Department of State Growth

Date:

DRAFT

Attachment A

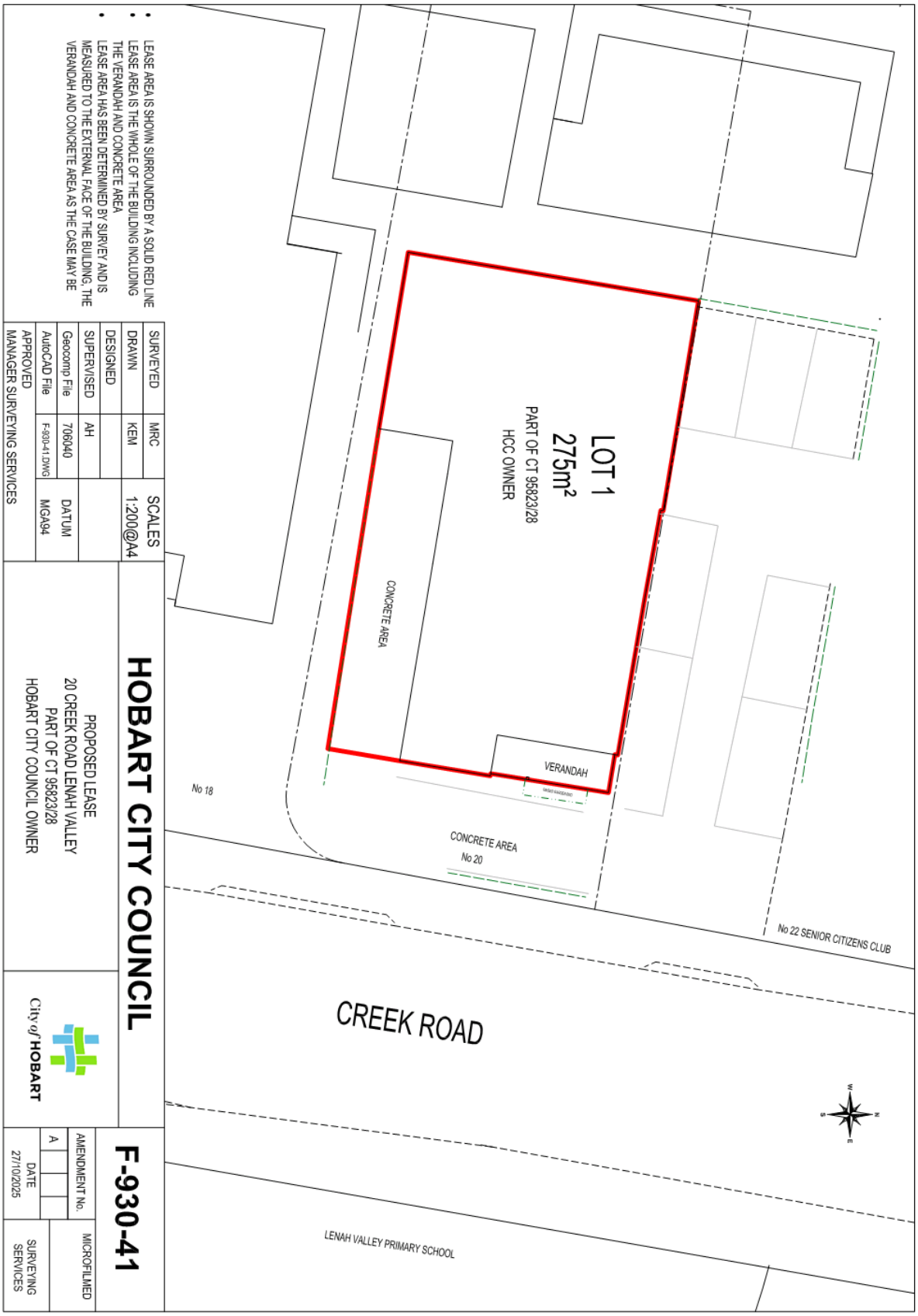
[*copy of Order*]

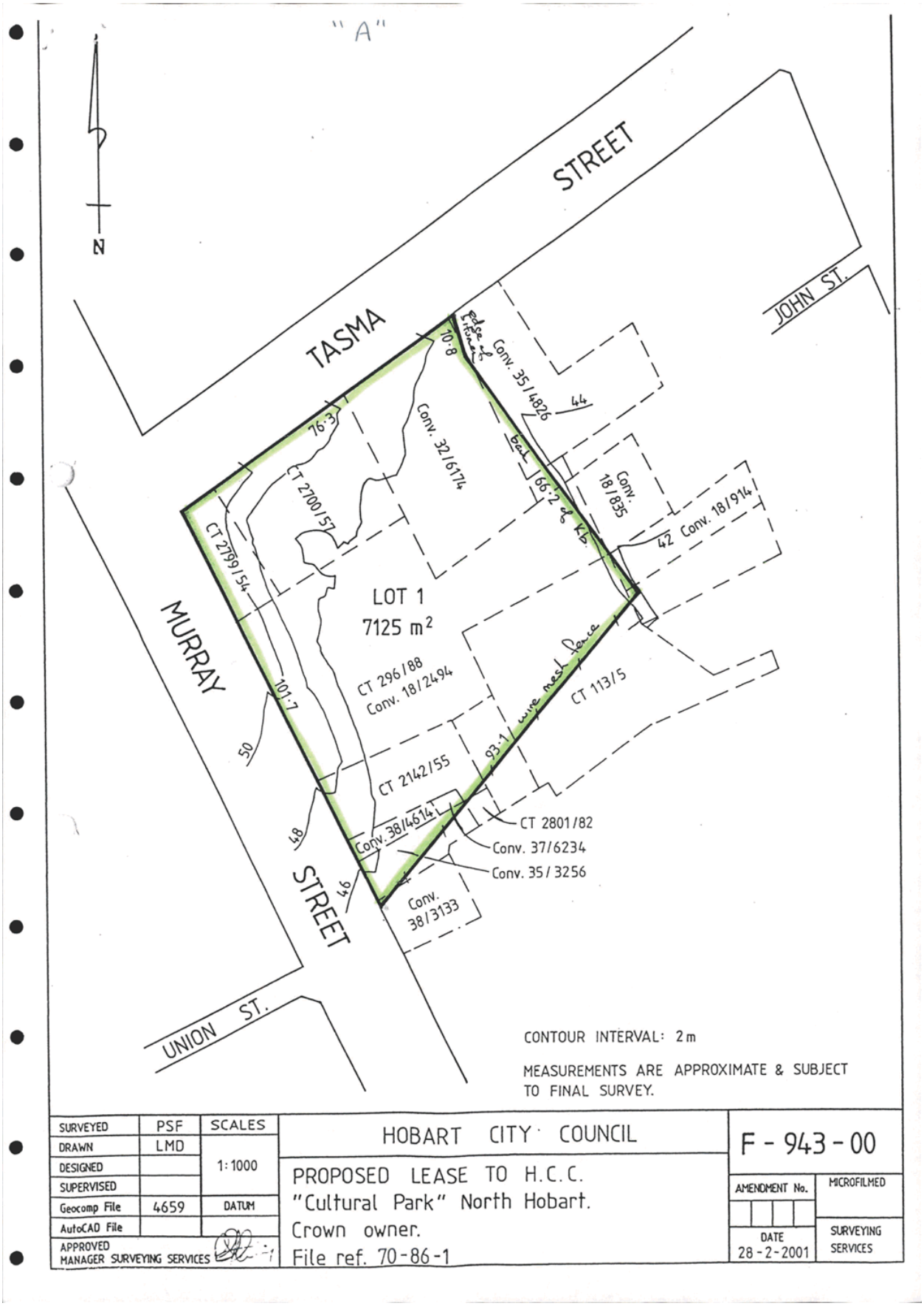
DRAFT

Attachment B

Condition	Description	Authorised Person
A1	Compliance with Plans and Documents	*[insert State Government person authorised]*
B2	Staging Plan	*[insert State Government person authorised]*
B7	Design Plans	*[insert State Government person authorised]*
B15	Electrical Network Services Plan	*[insert State Government person authorised]*
C3 and C4	Construction Traffic Management Plan	*[insert State Government person authorised]*
C5	Dilapidation Report	*[insert State Government person authorised]*
D1	Commencement of Operations	*[insert State Government person authorised]*
D5	Operational Management Plan	*[insert State Government person authorised]*
D7	Events Management Plan	*[insert State Government person authorised]*
D8	Security Management Plan	*[insert State Government person authorised]*
D10	Flood and Emergency Evacuation Management Plan	*[insert State Government person authorised]*
D11	Operational Transport Management Plan	*[insert State Government person authorised]*
D12	Operational Noise Management Plan	*[insert State Government person authorised]*
D13	Post-Occupation Review of Event Operations	*[insert State Government person authorised]*

DRAFT


LOT 1
275m²
PART OF CT 95823/28
HCC OWNER
CONCRETE AREA
VERANDAH
No 18
CONCRETE AREA
No 20
No 22 SENIOR CITIZENS CLUB
CREEK ROAD
LENAH VALLEY PRIMARY SCHOOL
LEASE AREA IS SHOWN SURROUNDED BY A SOLID RED LINE
LEASE AREA IS THE WHOLE OF THE BUILDING INCLUDING THE VERANDAH AND CONCRETE AREA
LEASE AREA HAS BEEN DETERMINED BY SURVEY AND IS MEASURED TO THE EXTERNAL FACE OF THE BUILDING, THE VERANDAH AND CONCRETE AREA AS THE CASE MAY BE
SURVEYED MRC
DRAWN KEM
DESIGNED
SUPERVISED AH
Geocomp File 706040
AutoCAD File F-930-41.DWG
APPROVED MANAGER SURVEYING SERVICES
SCALES 1:200@A4
DATUM MGA94
HOBART CITY COUNCIL
PROPOSED LEASE
20 CREEK ROAD LENAH VALLEY
PART OF CT 95823/28
HOBART CITY COUNCIL OWNER
City of HOBART
F-930-41
AMENDMENT No. A
DATE 27/10/2025
MICROFILMED
SURVEYING SERVICES



SURVEYED	PSF	SCALES	HOBART CITY COUNCIL	F - 943 - 00
DRAWN	LMD	1:1000	PROPOSED LEASE TO H.C.C. "Cultural Park" North Hobart. Crown owner. File ref. 70-86-1	AMENDMENT No. / MICROFILMED
DESIGNED				
SUPERVISED				
Geocomp File	4659	DATUM		DATE 28-2-2001 / SURVEYING SERVICES
AutoCAD File				
APPROVED MANAGER SURVEYING SERVICES				

We rely upon making agreements with our technical regulators to manage the risk of non-compliance over time. We act always with best endeavours to meet our obligations. However, we must manage the risk of our performance leading to possible penalties and prosecution. In 2023-24, we received environmental infringement notices from the EPA for offensive odour at the Port Sorell Sewage Treatment Plant and for the release of raw sewage following a break in a rising main near Wynyard. Additionally, we also received four Formal Warnings from the EPA. If we don't invest to improve asset performance, the risk of further regulatory action against us increases.

The risk of regulatory prosecution has indeed been realised in other, similar jurisdictions. In February 2023, Sydney Water was ordered to pay $200,000 for a raw sewage discharge into Prospect Creek[91]. In a similar regulatory framework in the United Kingdom (UK), the Environment Agency has successfully concluded 63 prosecutions against UK water and sewerage businesses for pollution offences, with fines totalling more than $300 million ($AUD)[92].

We are seeking to address the dilemmas we are facing, fixing our problems on behalf of the community by making the required investments to achieve outcomes, rather than paying fines.

Key risk:
Failure to comply with our technical regulations will result in regulatory prosecution and penalties within the PSP5 period.

18.3 The risks that remain after we make our capital and operating expenditure forecasts

Once capital and operating expenditure forecasts are approved by the TER, we then face the risk that our actual investment needs vary significantly from our forecasts. Under the current regulatory framework, we will recover actual capital expenditure at the end of the PSP5 period, subject to the TER being satisfied that the expenditure is prudent and efficient. We do not have the same opportunity for operating costs.

While our intent is to operate within our operating expenditure allowance, we continue to face material input cost increases across a number of our cost categories. In the PSP4 period, we experienced cost increases above inflation across categories such as chemicals, insurance and electricity, licence fees and government taxes.

Several examples of these short and long-term cost forecasting risks are described. These cost forecasting risks are material for PSP5, in that they could cause significant unplanned expenditure.

Changing regulation for PFAS and other emerging contaminants

Per- and polyfluoroalkyl substances (PFAS) are a group of more than 4,000 manufactured chemicals. These chemicals are used in many common products, including carpets, clothes and non-stick cookware. In the past, they were commonly used in fire-fighting foams.

PFAS are of concern because they can persist for a long time in humans and in the environment and have now been associated with adverse environmental and human health outcomes[93]. The Australian Government's Environmental Health Standing Committee (enHealth) continues to recommend exposure to PFAS be minimised wherever possible as a precaution[94]. We must consider these sorts of contaminants in our drinking water catchments, in the effluent from our sewage treatment plants as well as in the recycled water and biosolids we produce.

TasWater continues to be guided by the independent health regulators when it comes to its approach to PFAS. In October 2024, the National Health and Medical Research Council (NHMRC) released draft updated Australian Drinking Water Guidelines, which propose lower allowable levels for PFAS in drinking water. The NHMRC is expected to release final Guidelines in 2025.

91 New South Wales Environment Protection Authority: Sydney Water ordered to pay $200,00 for polluting creek. February 2023.
92 United Kingdom Environment Agency: How the EA uses its enforcement powers to hold water companies account. October 2024.
93 Water Services Association of Australia: Fact Sheet: PRAF and the water sector. February 2025.
94 Australian Government Department of Health and Aged Care. Per- and Polyfluoroalkyl Substances (PFAS) enHealth Guidance Statement. 2019.73

Price and Service Plan 5 Proposal
1 July 2026 – 30 June 2030
TasWater

Image credit – Caleb Nichols-Mansell

Since creation, the Palawa have lived here in Lutruwita - Tasmania. More than 2,000 generations of Aboriginal families have cared for this Country, looking after its lands, seas, skies and waterways.

In the spirit of respect and gratitude, TasWater acknowledges the Tasmanian Aboriginal community as the traditional and ongoing custodians. We pay our respects to them, their culture and to elders past and present.

TasWater commits to working collaboratively and respectfully with the Tasmanian Aboriginal community to protect and sustain the precious resources on this ancient land for future generations.

This Caleb Nichols-Mansell design takes inspiration from the nine river systems - Franklin, Gordon, Huon, Mersey, Pieman, South Esk, North Esk, Tamar and Derwent - that carve through country here in Lutruwita, and acknowledges the nine nations that called this land home prior to the effects of invasion and colonisation.

Surrounding these motifs and connecting all elements of the artwork is flowing water which represents our connection to the waterways that provided us with resources and food to sustain us. Water is life for all people, but particularly First Nations peoples who have relied on healthy waterways to survive for more than 60,000 years before the colonisation of our lands.

The artwork is designed for TasWater as a reflection of the caretaking for our precious waterways and as a reminder of our accountability to First Nations peoples, history and country throughout this island.

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Foreword

A balance of price and service that is fair for all Tasmanians for today and tomorrow

A message from the Chair and Chief Executive Officer

Planning for the future is never easy, especially when the stakes involve water security, clean drinking water, reliable sewerage systems and services, and the protection of the precious Tasmanian environment. Yet, this proposal – TasWater's fifth Price and Service Plan (PSP5) – highlights a reality we can no longer ignore.

For decades, Tasmania's water and sewerage infrastructure has lacked investment. The result is an asset base that is often overstretched, sometimes outdated and, in key areas, underperforming. TasWater manages 38 per cent of the nation's treatment plants while serving just two per cent of its population. That imbalance is the legacy of Tasmania's fragmented approach to water and sewerage service planning and delivery, up until the creation of TasWater to take a whole-of-state approach.

Our improvements over recent years have been significant. Boil-water alerts, or do not consume notices, were once permanent in 28 regional towns but are now a thing of the past. The last boiled water notice was removed in 2018. Leakage rates, which stood at a concerning 29.2 per cent just two years ago, have been reduced to 24.5 per cent, with more work required to reduce leakage to acceptable levels.

Despite this significant progress, our challenge remains. Only nine per cent of Tasmania's sewage treatment plants meet all Environment Protection Authority's licence conditions. That means our waterways, so central to Tasmania's identity, lifestyle, and economy, are being compromised by pollution. Our water and sewer pipes are also still poorly performing. Meeting the growth projections for the State is challenging due to assets performing poorly and being over capacity. We need to do better.

Unfortunately, the future will be more challenging with ageing infrastructure, climate change, increasing customer expectations, higher construction costs over time and increasing regulation.

Addressing our challenge now and in the future requires investment. And, like any utility, the money for the necessary investment largely comes from customers' bills. That's why finding the right balance between price and service is an important focus, and one that must be informed by the people who rely on the system every day.

We chose to collaborate with our customers to help us find the balance of price and service that is fair for all Tasmanians, for today and tomorrow. More than 3,500 Tasmanians participated in surveys, focus groups, community events, and forums. A Community Advisory Panel, which included 45 Tasmanians from all walks of life and from across the entire state, came together over five days to wrestle with the question of what matters most when it comes to water and sewerage services. The answer was clear – affordability, reliability, environmental protection, and better support for vulnerable households. We reconvened the panel in May 2025 to seek their views on our proposed price path and we considered the final options, benefits and risks for Tasmanians. We are grateful for their input into this PSP5 Proposal.

As a result, this PSP5 Proposal rightly puts environmental sustainability, water security, network reliability and clean drinking water at its core. Upgrades to sewage treatment plants and tighter environmental controls will help protect Tasmania's rivers, lakes, and coastal waters. Much needed upgrades to dams, important for water

security and dam safety, and an increase in the rate of proactive renewals to reduce unplanned service interruptions, are also key focus areas.

We share our customers' interest in affordability. We know that we provide an essential service, and we don't want any of our customers to be left behind. We will increase our support for those doing it tough. We will strengthen our TasWater Assist program – which offers tailored payment plans and financial counselling – through greater investment. Our support for customers experiencing difficulty to pay will increase to $2.4 million over the period. This is a compassionate and necessary step toward ensuring that every Tasmanian can access the water and sewerage services they need.

We also know that Tasmanians want more control over their bills. We have heard that loud and clear. Currently, 84 per cent of our water and sewerage bill is made up of fixed charges – the highest proportion in the country. This means people who use less water have little ability to reduce what they pay. In response, we are proposing a more equitable pricing model that puts greater emphasis on the 'user pays' principle, rewarding conservation and encouraging more responsible water use, with 33 per cent of the average residential water and sewerage bill becoming variable. This will result in an immediate reduction in the fixed charge for customers of $176 per annum in the first year of PSP5.

For the past four years, our price increases have been less than inflation. But the reality is that holding prices down means deferring critical upgrades, the costs of which will only grow with time. We are proposing to responsibly break that cycle in this PSP5 Proposal. It's about making smart, targeted investments, aligned with our obligations to our technical regulators, the Environment Protection Authority (EPA), Department of Health (DoH) and Natural Resources and Environment Tasmania (NRE). Our investments will bring our infrastructure up to modern standards, protecting our environment, and future-proofing our services for generations to come.

The results of these necessary investments is an annual price increase of 6.1 per cent, plus 2.7 per cent inflation (8.8 per cent) per annum for the PSP5 period. We understand that Tasmanians are under cost-of-living pressure and so, we have done all that we can to limit our price increase. We have challenged ourselves to be as efficient as possible in preparing our forward capital and operating expenditure forecasts. We have also proposed to delay the recovery of some costs until the following regulatory period, to ensure price increases are sustainable for customers and ourselves.

We believe this PSP5 Proposal, developed in collaboration with our customers and with support from the technical regulators, is in the long-term interests of the Tasmanian community. The 6.1 per cent, plus 2.7 per cent inflation (8.8 per cent) per annum price increase will fund $1.7 billion of much-needed investment in our infrastructure, creating $5 billion in indirect economic benefits and more than 15,000 Tasmanian jobs. We have set new, clear measurable customer outcomes to remain accountable. We have found a way to balance price and service so that our services can reach a sustainable footing. Striking this balance has not been easy. However, one thing is clear, we cannot keep asking future Tasmanians to bear the cost of necessary and critical investment needed today.

We thank everyone who participated in our community engagement program to help develop this PSP5 Proposal. We're looking forward to building on this collaborative approach in the future and applying customer insights across all our activities. We encourage all Tasmanians to have their say in this process with the TER.

Finally, this PSP5 Proposal isn't just about pipes and treatment plants, it's about the kind of Tasmania we want to live in and leave behind for our children and grandchildren. One where clean water is available now and in the future, where our waterways are healthy and clean, where services are reliable, and where every Tasmanian, regardless of circumstance, can rely on a service that is fair, sustainable, and resilient.

Kevin Young
Chair

Brendan Windmeyer
Acting Chief Executive Officer

Chief Executive Officer's Declaration

In accordance with the Tasmanian Economic Regulator's Price and Service Plan Guideline of October 2024, I declare:

- the information provided in our proposed Price and Service Plan is the best available information of TasWater's financial and operational affairs and has been checked in accordance with the Guidelines.
- there are no circumstances of which I am aware that would render the information provided to be misleading or inaccurate.
- that TasWater's proposed Price and Service Plan has applied the outcomes from each of the Regulator's inquiries into TasWater's approaches to regulatory depreciation, sewerage charging, trade waste charging and the level of service charges.

Certified by the Chief Executive Officer:

Brendan Windmeyer
Acting Chief Executive Officer
Date: 30/06/2025

Executive summary

This document presents TasWater's 2026-30 Price and Service Plan (PSP) Proposal for the four-year regulatory period commencing 1 July 2026. This PSP Proposal – our fifth such proposal, henceforth referred to as our PSP5 Proposal – meets all the requirements of the Tasmanian Economic Regulator's (TER) Price and Service Plan Guideline for the fifth regulatory period.

Our PSP5 Proposal at a glance

- TasWater is at a critical juncture. We must invest now to lift the performance of our assets to the standards expected by customers and regulators of a modern water utility, and to avoid passing an even greater financial burden and further environmental degradation onto future generations.
- We have heard, loud and clear, that our community wants us to respond to the challenges we are facing in new and innovative ways. Proactive management, maintenance and replacement of our assets, including the use of technology, was a key recommendation.
- This PSP5 Proposal will see us invest in addressing sewage treatment plants that pose high-risk to the environment, modernising our network to reduce leakage and improve customer service standards, and improving water security for the future.
- We know our community is doing it tough in the current economic climate, so we have been prudent and efficient about our proposed expenditure and sought to minimise the extent of our proposed price increase.
- To keep prices as low as practicable we have set ourselves ambitious efficiency targets, proposing annual operating efficiency reduction of $38 million (or 1 per cent per annum) and $100 million in capital expenditure efficiency (or 6 per cent overall). We plan to do $1.7 billion worth of work for $1.6 billion over the price and services period.
- Yet despite our best efforts, the cost reflective price increase over the next four years is 8.5 per cent plus 2.7 per cent inflation per annum (or 11.2 per cent). Of this, 7.9 per cent of this increase is based on external economic factors beyond our control, including higher interest rates.
- To balance affordability, we are proposing to defer our recovery of $109.6 million of this investment to the next regulatory period, smoothing the effect of price increases for customers over a longer period of time.
- This means our proposed price increase for PSP5 is 6.1 per cent, plus 2.7 per cent inflation (8.8 per cent) per annum for the PSP5 period.
- For the past four years, our prices have increased less than the rate of inflation, capped at 3.5 per cent. Without this proposed price increase, we will not be able to make the investments necessary to address our performance gaps and improve our customer and environment outcomes.
- We will empower and support our customers to manage the change by giving them more control over their bills, moving the proportion of variable charges on an average residential customer's bill from 16 per cent to 33 per cent.
- We will increase our investment to $2.4 million to strengthen our TasWater Assist Program, to offer greater, tailored support to vulnerable customers.

Our poorly performing assets urgently require investment

Tasmania's history and geography are reflected in the assets we use to provide water and sewerage services today. Small, dispersed communities with low, stable population growth rates and rugged terrain across Tasmania gave rise to localised, incremental water and sewerage systems that were the responsibility of local councils for many decades. The small size of councils across the state limited their financial capacity to invest in maintaining and replacing water and sewerage infrastructure.

An inconsistent approach in quality and pricing of services was the inevitable result, which became a driver for amalgamation – firstly to three water corporations and one shared service entity, and then to TasWater in 2013. Most of the assets that TasWater inherited were reminiscent of our past – small and localised, in poor condition and performing poorly. The historical lack of adequate investment in water and sewerage assets is well established as a key driver of the water industry reform in Tasmania over the last 20 years.

For 12 years, we have focused on bringing all Tasmanian communities to the same high level of drinking water quality – building 30 new water treatment facilities, removing 28 public health alerts for drinking water and replacing Tasmania's largest water treatment plant with a world class facility at Bryn Estyn. The new Bryn Estyn Water Treatment Plant ensures improved water quality and security for greater Hobart for the next 50 years.

We must now increase the attention paid to other assets that are under-performing, particularly our pipeline networks, our sewage treatment plants and our high-risk dams. We must also lift our digital investment; contemporising our business practices to achieve greater efficiency and increasing our data protection in the face of rising external threats.

Our current reality is:

- Until recently, we could not account for almost one-third of the water we produced. Today, we cannot account for about 24.5 per cent.
- Out of our 77 Level 2 sewage treatment plants, 23 per cent are classified as 'high risk' to the receiving environment in which they discharge. Furthermore, only nine per cent of these sewage treatment plants are compliant with all environmental licence conditions.
- We have an unacceptably high number of sewer breaks and chokes compared to other major water businesses across Australia – in 2023-24, we averaged more than 64 sewer mains breaks and chokes per 100 kms compared to the Australian median of 26.
- Likewise, we have a high number of water main bursts and leaks compared to other major water businesses across Australia – in 2023-24, we averaged more than 43 water main bursts and leaks per 100 kms compared to the Australian median of 18.
- Our network of pump stations and treatment plants is being monitored by outdated and unsupported telemetry systems, increasing the risks of operational failures going undetected.
- Our poor performing infrastructure is currently unable to meet many of the PSP4 service standards – in 2023-24, we failed to meet 12 out of 19, or 63 per cent, of our targets.
- We calculate that only 48 per cent of our customers are currently supplied by a system capable of delivering our proposed water security service levels. That water restrictions are required no more than once in 10 years, for a period of no more than six months on average and have a minimum water availability of 100 litres per person per day.
- We must continue to invest to support the growth in the residential and industrial/ commercial sectors being planned by local councils and as set out in the State Government's housing targets.
- Climate change continues to impact on our planning and operations, with increasing climate variability increasing investment needs for the future.

This is a collective challenge that reflects our past. Our proposal charts a prudent, yet necessary, course to address these challenges and put Tasmania's water and sewerage services on a sustainable setting.

Our regulatory obligations and community expectations have increased

Understanding the views and preferences of our customers and community sentiment and priorities is essential in deciding how we respond to the challenge that we face as a community. Meeting the continually evolving requirements of our health, environment and dam safety regulators, who are representing the interests of our customers, is also critical.

Tasmanians benefit from our services, however they also bear the costs of our operations and investment in capital upgrades. So, we know it is important to let customers have their say on how quickly, and to what extent, we upgrade and modernise our systems to deliver what our customers and regulators want over the next regulatory period.

We undertook our most comprehensive customer engagement program ever over the last two years, with our extensive engagement activities culminating in the deliberations of our Water Future Community Advisory Panel (our Panel).

More than 3,500 Tasmanians registered to have their say on Tasmania's water future, from which 500 went on to express an interest in being part of our Panel. Forty-five demographically representative[1] community members were independently chosen and placed at the heart of our decision-making process for preparing this PSP5 Proposal.

We have been transparent with customers about the scale of our challenge, the size of the investments that are necessary and the potential price impact this would have.

We heard, loud and clear, that our community wants us to respond to the challenges we are facing in new and innovative ways. Proactive management, maintenance and replacement of our assets, including the use of technology, was a key recommendation.

Supporting customers to have greater control over their water usage and bills, through more volumetric based pricing, greater support and enhanced water efficiency programs, were also recommended.

Overwhelmingly, our community told us that we need to work harder to protect and improve our environmental performance. These sentiments are shared by our technical regulators; the Environment Protection Authority, Department of Health and the Department of Natural Resources and Environment Tasmania. More than half of our proposed capital expenditure over the next four years is directly driven by regulatory obligations, particularly meeting those obligations for environmental discharge from our sewage treatment plants.

Figure 1. Our PSP Outcomes

WHAT WE HEARD					
Fixing leaks	**Securing water for our future**	**Providing reliable services and responding to faults quickly**	**Being easy to deal with and providing support**	**Protecting our environment and waterways**	**Give customers greater control over their bill**
WHAT WE WILL DELIVER					
Reduced leakage in our system	Improved water security	Reduced instances of unplanned interruptions and poor service outcomes	Improved customer satisfaction and resolving issues	Reduced environmental impact	Charging based on usage
	Support customers to conserve water	Timely response and restoration of unplanned interruptions	Increase effectiveness of TasWater Assist		
		Maintain safe drinking water			

1 Refer Section 3.4 for further details of the Water Future Community Advisory Panel demographics.

We are also embracing innovation, increasingly looking upstream and downstream of our assets to find new solutions to customer and environmental problems. These can be non-traditional, and less capital-intensive, investment options that represent the lowest 'whole of system' cost and the best customer and environmental outcomes. Examples of these solutions include the beneficial reuse of treated sewage effluent or nutrient offsets to achieve improved environmental outcomes at least cost.

In response to the challenge we are facing, and guided by what we have heard from our customers, we are committed to the delivery of 10 key outcomes over the PSP5 period. These outcomes, summarised in Figure 1, form the foundation of our PSP5 Proposal.

We must prudently invest now to lift our performance

If we don't invest now, we'll continue to fall behind the catch-up investment required to maintain and replace our assets, creating larger challenges and increasing the urgency of response; resulting in customer price impacts that are unsustainable for future generations. For example, the rate of leaks, breaks and chokes in our networks will not improve, and in fact are likely to worsen, unless we deliberately increase the investment in pipeline renewals.

Less investment than proposed in our PSP5 Proposal will manifest as further decreasing levels of customer service, and further increasing environmental impacts, as the condition of our already poor-performing and ageing assets continue to decline and put further strain on our already overloaded systems. Confronting our current reality and making prudent investment now to modernise and consolidate our asset base will avoid large-scale and urgent investment in the future to address increasing rates of failures once they occur. The costs of workarounds for our poorly performing assets is not sustainable in the future.

Our PSP5 Proposal builds the foundation for modern, rationalised sewerage systems in Hobart and Launceston. The decommissioning of the Macquarie Point Sewage Treatment Plant and the upgrade of the Selfs Point Sewage Treatment Plant will enable, in time, the rationalisation of a further three Sewage Treatment Plants in Hobart. The commencement of the upgrade of the Ti-Tree Bend sewage treatment plant will ultimately result in the decommissioning of six sewage treatment plants across Launceston over subsequent pricing periods. These programs of work will deliver much improved environmental and public health outcomes in the Derwent and Tamar estuaries respectively, and support growth in these regions.

We know that all of our challenges are fixable, given the time, resources and funding to prioritise and address them. We are also serious about our responsibility to deliver cost-effective services, because we know that we provide essential services that Tasmanians cannot live without, and that Tasmanians are doing it tough in the current economic climate. Yet the lessons from the United Kingdom tell us that failure to address our challenges in the near-term, by deferring critical investments, will only increase the long-term costs to customers and risk losing customer trust in the water sector.

As such, we have developed long-term 50-year plans[2] that chart the investment we need to make, but we have prioritised carefully to ensure that our expenditure over the next four years remains prudent and efficient, and limits resultant price increases. Only those investments with the greatest positive outcome for customer services, environment and reducing risk and future costs have been included in our PSP5 Proposal.

We have demonstrated our ability to deliver large and complex capital programs, successfully increasing the annual capital investment delivered over our first 12 years. We are currently forecasting to meet our approved PSP4 capital expenditure allowance and we are expecting to exceed our long-term plan to deliver $1.7 billion of infrastructure between the years of 2016-17 and 2025-26, agreed as part of our 2018 Memorandum of Understanding with the State Government[3]. Our increased capital delivery capability is illustrated in Figure 2.

Delivery of the outcomes to which we are committed over the PSP5 period will require a further $1.7 billion in capital investment. We will, however, only recover $1.6 billion of this from customers. The outcomes of our proposed capital plan are provided in Figure 3.

2 Our regional master plans and water security plan will be provided to the TER as part of this PSP5 Proposal.
3 In 2018, TasWater and its owners signed a Memorandum of Understanding with the State Government to progress reforms of the water and sewerage industry. In the MoU, TasWater committed to use its best endeavours to undertake a $1.7 billion infrastructure investment program in the 10 years to 2025-26.

Figure 2. Actual and proposed capital expenditure[4]

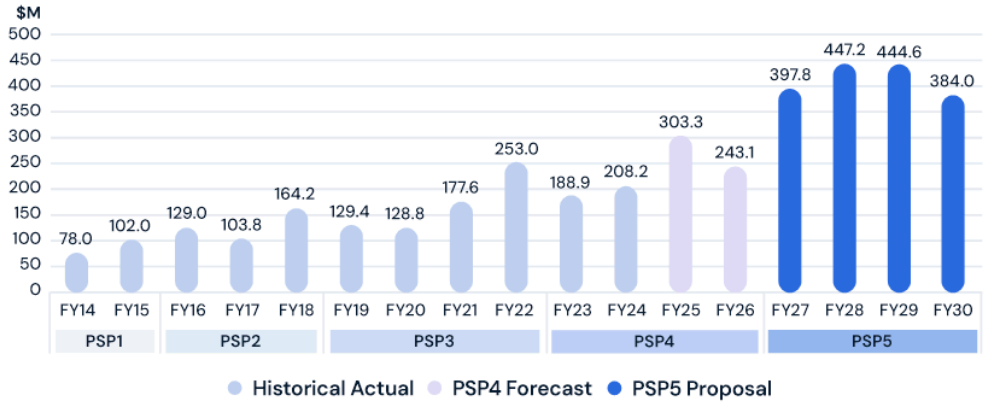
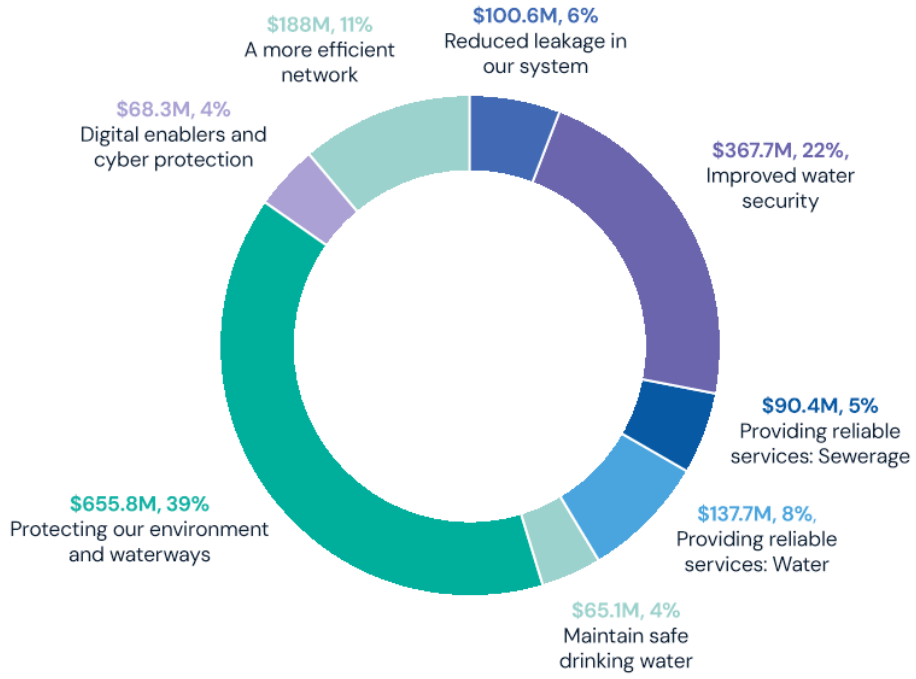


Figure 3. How our proposed capital investment supports our PSP5 outcomes



4 All estimates provided in this PSP5 Proposal are expressed in nominal value terms unless otherwise noted.

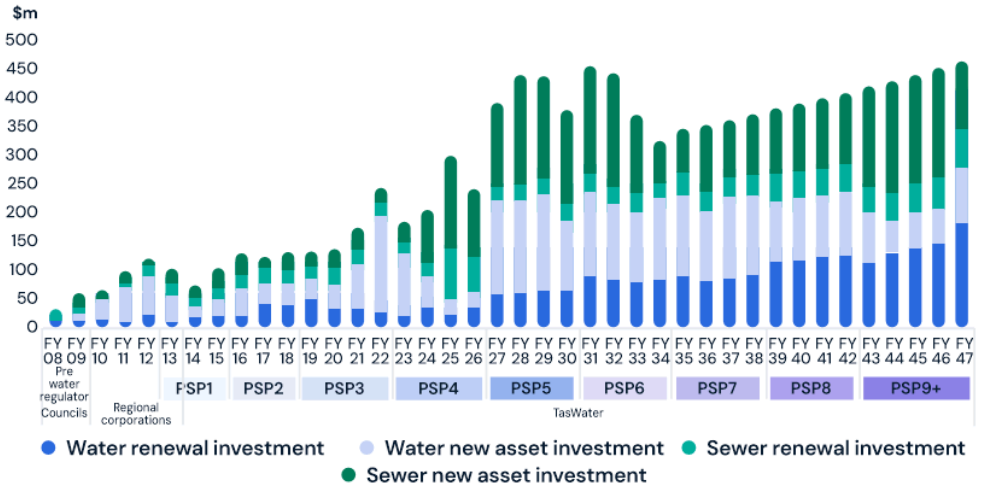
Our proposed investment will:

- **Reduce leakage in our system $100.6 million:** This will reduce leakage in our water networks from 24.5 per cent water lost through leakage to 14.4 per cent, which represents a cost-effective level of leakage[5] through a dedicated $100.6 million program to target replacements in high leakage areas and to use technology to better monitor the network.
- **Protecting our environment and waterways $655.8 million:** We will complete the Selfs Point Sewer Transformation Project and commence the Launceston Sewer Transformation, laying the foundation for modern sewerage systems in Hobart and Launceston[6]. This will greatly improve environmental outcomes in the Derwent and Tamar estuaries.
- In addition, we will upgrade nine sewage treatment plants that are assessed as high environmental risk discharge and commence investment to address a further six high risk sewage treatment plants in PSP6. This will improve environmental outcomes and compliance as agreed with the Environment Protection Authority (EPA) in our Wastewater Risk Management Plan.
- **Maintain safe drinking water $65.1 million:** We will maintain our high level of drinking water quality and lower the risks associated with drinking water quality in our regional towns aligned with the health-based targets set by the Department of Health.
- **Improved water security $367.7 million:** We will upgrade two important dams that are currently below dam safety guidelines, being Ridgeway Dam in Hobart ($143.8 million) and Pet Dam in Burnie ($97.1 million), as well as monitoring and assessing other dams as part of our Dam Safety Risk Management Plan endorsed by the Dam Safety Regulator.
- We will reduce the percentage of customers at risk of water restrictions caused by lack of water security (excluding periods of greater than 1.10 year drought) from 15.6 per cent to ≤3 per cent.
- **Providing reliable water and sewerage services $137.7 million and $90.4 million respectively:** We will increase the reliability of our services, investing in much needed pipe and pump station renewals in our poorly performing asset base, including $95.2 million in water mains renewals to bring the rates of water mains breaks and bursts per 100kms from 42.8 to ≤16 and $30.1 million in sewer mains renewals to bring the rates of sewer mains breaks and chokes per 100kms from 63.9 to ≤20.
- **A more efficient network $188.0 million:** We will invest in our metering renewals ($45.1 million), electrical and SCADA equipment ($87.4 million) and other supporting infrastructure to ensure we can appropriately bill customers, and manage our infrastructure and operations effectively.
- **Digital and cyber $68.3 million:** We will invest in our outdated digital infrastructure to comply with our obligations, keep our information safe from cyber attacks and ensure we have appropriate core systems.

We know that our most pressing challenges cannot be solved overnight. We have taken a prioritised and staged approach to investment, keeping our PSP5 Proposal responsible in the context of our long-term plans. Closing all of our performance gaps will take multiple price and service plan periods. Figure 4 illustrates our changing focus of our capital investments over time. The past 10-years has predominantly focussed on improving drinking water quality and public health outcomes. This focus is now shifting in PSP5 and beyond to improve environmental compliance with regulatory requirements, uplift the performance of our assets to meet the expectations of our customers, ensure water security and enable growth.

5 This is based on the existing definition of non-revenue water currently applied.
6 The Hobart and Launceston Sewerage Improvement Plans and the supporting businesses cases are provided as supporting information to the PSP5 Proposal.

Figure 4. Focus of our capital investments in the context of TasWater's journey



Before 2008	2008–2013	PSP2 & 3: 2013–2022	PSP4: 2022–2026	PSP5: 2026–2030	PSP6 and beyond
Local Government	Water industry reform and regional businesses	TasWater established and addresses public health challenges	TasWater consolidates and improves performance and capability	TasWater uplifts environmental and customer service outcomes	Continue journey to meet customer expectations for service and environmental outcomes
• Each Council ran water and sewerage service in isolation without the benefits of scale. • This produced a very large number of small, dispersed, basic infrastructure. • Most of these assets are incapable of meeting modern regulatory standards and service levels fall well below industry benchmarks.	• Condition assessment of assets commences. • Minimum service levels first introduced. • Economic regulation introduced and new pricing. • Some progress made for public health but not for environmental impact. • The utilities did not have the scale or capabilities to address the challenges they inherited.	• Establishment of TasWater as a single entity. • Drinking water safety was the major priority. • Regular Public health alerts eliminated and achieved 100 per cent compliance with Australian Drinking Water Quality Guidelines. • Several major dams upgraded. • Prices harmonised across the state and capped from 2019. • Capital Delivery Office established.	• Prices remain capped under inflation. • Major leak reduction program initiated and network renewals increased. • Improvements to organisational culture and safety. • Major uplift in capital delivery capability. • Completed upgrade of TasWater's largest water treatment plant, Bryn Estyn, which serves greater Hobart. • Major uplift in long term asset planning (regional master plans). • Commence rationalisation and upgrading sewage treatment plants.	• Step-change toward user pays pricing and encouraging more water conservation. • Improved environmental outcomes, reducing high environmental risk sewage treatment plants. • Completion of Selfs Point Sewer Transformation project and commencement of Launceston Sewer Transformation. • Improve the performance of our network assets to average industry practice, uplifting customer service. • Upgrade our high-risk dams to ensure we meet our dam safety obligations.	• Deliver long-term plan to eliminate high-risk environmental discharge from sewage treatment plants and achieve environmental compliance. • Step-change improvements in performance of our network based on renewing legacy assets. • Water security and renewal such as the North West Water Supply Strategy.

We recognise our role in enabling Tasmanian economic development. This proposal will ensure we cater for, and fairly fund, investment in growth. We have used State Government and local council outlooks to forecast modest growth in our customer base of 0.9 per cent per annum. A lack of investment in water and sewerage infrastructure will become a roadblock to Tasmanian prosperity.

We know that our most pressing challenges cannot be solved overnight. We have taken a prioritised and staged approach to investment, keeping our PSP5 Proposal responsible in the context of our long-term plans. Closing all of our performance gaps will take multiple price and service plan periods. Figure 4 illustrates our changing focus of our capital investments over time. The past 10 years has predominantly focussed on improving drinking water quality and public health outcomes. This focus in now shifting in PSP5 and beyond to invest in environmental outcomes, uplift the performance of our assets, ensure water security and enable growth.

There are large indirect benefits to the Tasmanian community of this PSP Proposal. Our prioritised $1.7 billion capital plan will create more than **15,000 Tasmanian jobs** and more than **$5 billion in indirect economic** benefit for Tasmania[7].

We have sought to minimise proposed price increases wherever possible, however external factors are putting upward pressure on prices

While each regulatory period faces different circumstances, our PSP5 Proposal coincides with particularly challenging economic conditions. We are acutely aware that the cost of living is a major concern of Tasmanians. Our customers have told us this.

Our business, too, is experiencing a period of high-cost inflation and rising interest rates. What does this mean for our PSP5 Proposal? We have more upward pressure on prices, much of which is driven by external factors beyond our control.

Our prices were last set shortly after the dramatic effects of COVID-19 disrupted global and local economies. In this time of uncertainty, making accurate forecasts of inflation and interest rates for the forthcoming four-year regulatory period was nigh on impossible. As expected, the forecasts factored into our latest price path did not reflect reality, with interest rates rising higher, and more quickly, than forecast. This has meant our prices have increased less than CPI, year on year, whilst our input costs have in fact increased.

7 Based on latest input-output tables published by the Australian Bureau of Statistics (ABS) Australian National Accounts: Input-Output Tables 2020-21, Cat. No. 5209.0.55.001.

The combined effects of movements in inflation and interest rates, beyond what was expected when our prices were set for the PSP4 period, put us in the unenviable position of facing significant unavoidable price increases even before we factor in the prudent expenditure we need to lift our asset performance. While we have kept our price increases capped at 3.5 per cent per annum in the current price period, we have experienced cost inflation far greater than this across our supply chain. This is demonstrated by comparing our bill increases to actual inflation over the last five years, provided in Figure 5.

Faced with this environment of increasing costs, we have been disciplined about cutting costs and delivering our services efficiently over the PSP4 period. We have met our efficiency targets in this current period, after adjusting for actual inflation. Now we are doubling down on our efforts to be even more efficient.

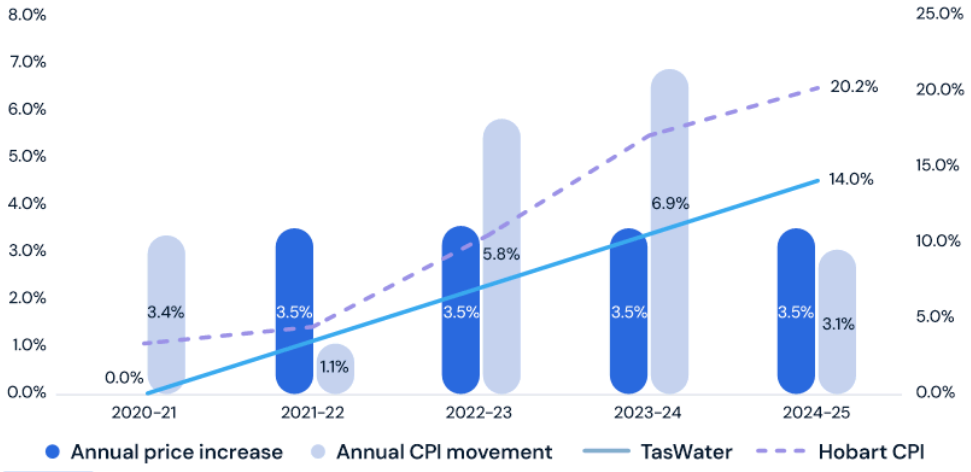
Looking forward to the PSP5 period, our proposed operational expenditure forecast is a total of $1.1 billion over the four years of the PSP5 period. This is $242.2 million higher than what was approved in PSP4. When adjusted for inflation, this is a total increase of 10.5 per cent (in real terms).

Half of this increase is driven by CPI inflation and demand growth ($124.1 million). The remainder is primarily driven by an increase in our base year to recover annual leave and long service leave ($51.9 million), never before recovered, and customer connection operating costs ($28.7 million) that is offset by revenue.

Faced with increases in costs, we have again set ourselves an ambitious operating expenditure efficiency target of 1.0 per cent per annum, representing a $38 million reduction in operating costs. We have also set ourselves a $100 million capital efficiency target, to be achieved by increased efficiency through our capital planning and delivery frameworks. This efficiency approach reduced the revenue that we recover from customers by a further $8 million, resulting in a total reduction of $46 million over the PSP5 period for our efficiency approach.

We have also taken the hard decision to propose deferring the recovery of a portion of our proposed cost-reflective revenue in PSP5. This lowers the annual price increase in PSP5 and will defer recovery of $109.6 million revenue until PSP6. Based on information available today, this will increase the forecast price increase in PSP6 from 0 per cent per annum to 5.4 per cent per annum (including inflation). We propose to include the deferred revenue in our Regulated Asset Base to recover this in PSP6. In this way, we are hoping to

Figure 5. TasWater price increases compared to CPI increase[8]



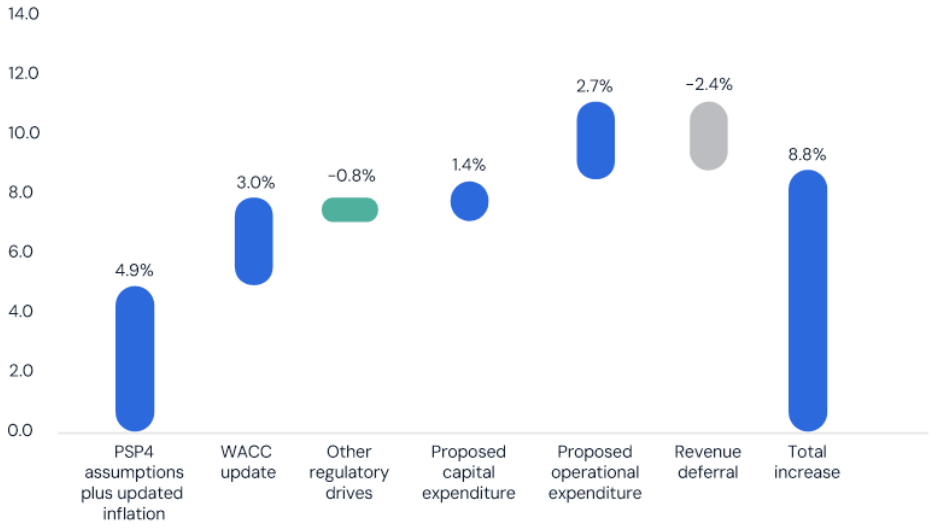
8 CPI based on the ABS Hobart All-groups index, using March to March annual movement that precedes the financial year.

lessen the impact of price increases to customers, essentially 'smoothing' the price impact over a longer period.

After considering the necessary investments in PSP5, and after our disciplined approach to efficiency and revenue recovery, we propose to increase our prices by 6.1 per cent, plus inflation of 2.7 per cent per annum, resulting in a price increase of 8.8 per cent for each year of the PSP5 period. This would have been a 11.2 per cent per annum price increase without our proposal to defer some revenue recovery until PSP6.

As outlined in Figure 6, inflation and interest rates that are driven by external economic factors, make up 7.9 per cent of our proposed 11.2 per cent cost reflective price increase. These are necessary to ensure that we have enough revenue to meet our efficient costs. These factors are returning toward their long-term averages since the PSP4 determination, which was made at a time of relatively low interest rates and high inflation. The impacts of our capital and operating expenditure proposals, and our proposed revenue deferral are also included in Figure 6.

Figure 6. Price increase drivers for PSP5



Taking our ambitious efficiency targets into account, the remainder of our proposed price increase is made up of our planned capex (1.4 per cent) and opex (2.7 per cent). While we do have greater control over our planned expenditure, as outlined above, much of this is driven by regulatory compliance and necessary performance improvements.

For example, 54 per cent of our planned capex is directly related to regulatory requirements – covering everything from environmental compliance through to cyber security requirements – therefore, there is no scope to reduce or defer this expenditure.

While we have unique Tasmanian circumstances, we are not alone in facing the challenge of balancing increasing investment needs with relatively low water bills (our bills currently make up approximately 1.2 per cent of Tasmanian household expenditure). National benchmarking suggests this is a challenge across Australia and indeed many have made the comparison to the United Kingdom where a failure to invest in services has triggered the largest review of the legislative and regulatory framework in the United Kingdom in many decades. We must ensure our infrastructure keeps up with regulatory and customer expectations and we do not

compromise the living standards of Tasmanians or leave an unfundable legacy for future generations.

Importantly, this means average household annual bills will increase by $522 from the beginning to the end of the four-year period, from $1,4073.23 to $1,928.82 (including inflation). This equates to an average bill increase across the PSP5 period of $5 per customer per week. The price increases and the proposed prices are provided in Table 1 and Table 2. Our proposal will have different impacts on each of our customer cohorts, which are outlined further below.

Table 1. Proposed overall water and sewerage regulated price increases in PSP5 (including inflation)

Tariff	FY26	FY27	FY28	FY29	FY30
Regulated water and sewerage price increase including inflation	--	8.8 per cent	8.8 per cent	8.8 per cent	8.8 per cent
Average annual residential water and sewerage bill	$1,407.23	$1,497.64	$1,629.43	$1,772.82	$1,928.83

Table 2. Proposed water and sewerage prices in PSP5

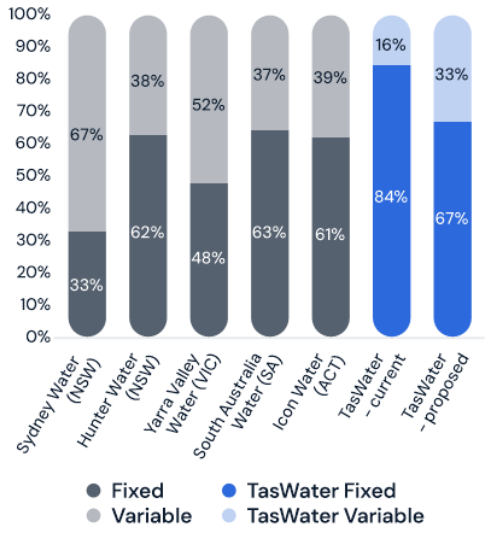
	FY26	FY27	FY28	FY29	FY30
Fixed water charge					
20mm	$407.33	$345.73	$376.15	$409.25	$445.27
40mm	$1,629.32	$1,382.91	$1,504.60	$1,637.01	$1,781.06
200mm	$40,732.89	$34,572.64	$37,615.04	$40,925.16	$44,526.57
Fixed sewerage charge					
Minimum charge	$781.69	$667.54	$726.28	$790.19	$859.73
Variable water charge					
Full service ($/kL)	$1.26	$1.81	$1.97	$2.14	$2.33
Variable sewerage charge					
Full service ($/kL)	$0.00	$1.10	$1.20	$1.30	$1.42
Residential sewerage discharge cap (kL)					
kL	0	240	240	240	240

We will empower our customers by giving them more control over their bills

Our PSP5 Proposal introduces an important step-change to the way prices are structured in Tasmania, so that customers can have more control over their bills.

Our bills have a much larger proportion of fixed charges than other water businesses across Australia, with approximately 84 per cent of our average residential bill being fixed. As a result, our customers have very little control over the amount of their bills and are not rewarded for using less water in their home and businesses. The comparison to our interstate peers is shown in Figure 7.

Figure 7. Fixed and variable bill splits of Australian utilities[9]



Customers have told us they want more control over their bills. The Tasmanian Economic Regulator (TER) has also completed an inquiry into sewerage tariffs and determined that a change to tariffs is required. We have listened to this feedback, and we propose to change our pricing structure as a result.

We will step-change to a 33 per cent proportion of variable charges, which are based on usage. This will immediately lower the service (fixed) charges to customers, with an average customer immediately saving $176 per annum on their service charge. This important reform will give customers greater control of their bills and reward them for using less water, signalling the true value of Tasmania's precious water resources. It will be complemented by a program of customer communications and water conservation initiatives to support customer behaviour change.

Increasing our usage charges and reducing fixed charges was overwhelmingly supported by customers who completed our bill simulator survey and was a key recommendation from our Water Future Advisory Community Panel.

As a result of this change, fixed water charges will reduce by 15 per cent (from $407 to $346) and fixed sewerage charges will reduce by 15 per cent (from $782 to $668) in the first year of PSP5, (commencing 1 July 2026). On average, 32 per cent of residential customers will pay less under our new pricing arrangements than they would have under a continuation of our current pricing structure in the first year of the PSP5 period[10]. For our non-residential customers, under our tariff reform proposal 63 per cent of customers (or an estimated 10,300 customers) will pay less in the first year of the PSP5, even after the proposed price increase.

We are also moving away from the current basis of sewerage charging to a conventional fixed and variable charge, to simplify billing arrangements for customers and reinforce their ability to control their bills through variable charges. This will see us move away from using the equivalent tenement[11] basis of sewerage charging, consistent with the findings of the TER's inquiry. The proposed new sewerage variable charge will be based on a discharge factor applied to the volume of water consumed at a property.

With any tariff reform there will be those that pay more and those that pay less in their total annual bill. However, we believe our proposal has customer support, gives customers more control over the size of their bill and provides the right incentives for customers to reduce water consumption. This is not only fairer for customers but will also have other benefits such as deferring major water supply capital investment and improving our impact on the environment.

9 Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24).
10 Taken in isolation of the proposed price increase, our tariff reform proposal will result in 62 per cent of customers paying less.
11 An Equivalent Tenement (ET) is a measure used to estimate the impact of a property on water and sewerage infrastructure. We received consistent feedback from customers that this is not well understood.

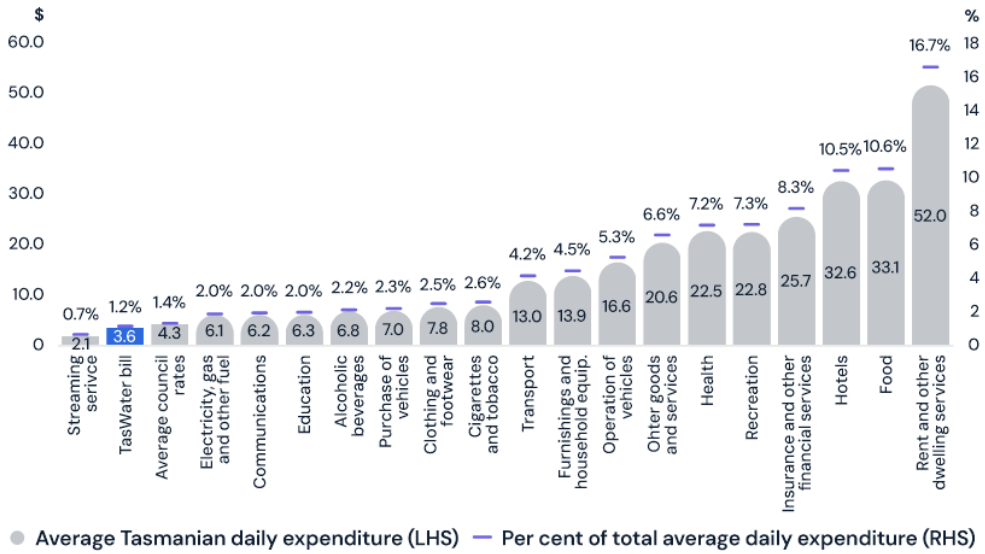
We will support our customers by strengthening our hardship program to offer greater, tailored support

Affordability has been a key concern among our customers and stakeholders as we have prepared our PSP5 Proposal. Measuring affordability is challenging, as it depends on each customer's unique circumstances and perspective. We estimate that our water and sewerage bill currently makes up 1.2 per cent of Tasmanian household expenditure, or $3.60 a day, as outlined in Figure 8[12].

We have benchmarked our price increases for affordability, consistent with other jurisdictions that apply a benchmark for water and sewerage bills to be below 3 per cent of household income. Our PSP5 Proposal remains affordable for median Tasmanian households over the period by this definition.

Despite our bills forming a relatively low proportion of typical household costs, we understand that there are customers in Tasmania that struggle to pay the bills for their basic household needs. Our proposed price increases will impact these households to a larger extent, so we will increase our support in PSP5 for customers who have difficulty in paying their bills. When both the proposed price increase and our tariff reform proposal are considered, the bill impact across customer cohorts are provided in Table 3.

Figure 8. Average TasWater bill as a percentage of daily Tasmanian household expenditure



Customers who are low water users (using less than 80kL per annum) will receive an overall reduction to their bill of $53 in the first year, including the impact of the price increase in that year. There is an estimated 62,900 customers in this cohort. A customer who uses the median residential usage, will see their bill increase by $35 in the first year and a large family will see their bill increase by $307 in the first year, after the price increase.

We are committed to supporting our customers through our customer assistance program, TasWater Assist.

12 ABS Australian National Accounts: National Income, Expenditure and Product (December 2024).

Table 3. Proposed bill impacts for customer cohorts – inclusive of proposed price increases and proposed tariff reforms

Financial Year	Est Cus-tom-ers	Consumption			2026	2027			2028			2029			2030		
Customer cohort	No.	Min kL	Max kL	kL bill comparison	$ Annual bill	$ Annual bill	% increase from FY26	$ increase from FY26	$ Annual bill	% increase from FY26	$ increase from FY26	$ Annual bill	% increase from FY26	$ increase from FY26	$ Annual bill	% increase from FY26	$ increase from FY26
Pensioner, single	62,870	0	120	80	1,290	1,237	-4.1%	-53	1,346	4.4%	56	1,465	13.5%	175	1,593	23.5%	304
2 person household	55,857	120	200	160	1,391	1,461	5.1%	70	1,590	14.3%	199	1,730	24.4%	339	1,882	35.3%	491
Small family (2 adults, 1 child)	33,003	200	280	240	1,492	1,712	14.7%	220	1,862	24.8%	371	2,026	35.8%	534	2,204	47.8%	713
Family (2 adults, 2 children)	16,312	280	359	320	1,593	1856	16.6%	264	2,020	26.8%	427	2,197	38.0%	605	2,391	50.1%	798
Large family (5 people)	8,111	359	439	400	1,694	2,001	18.2%	307	2,177	28.6%	484	2,369	39.9%	675	2,577	52.2%	884
6+ person household	10,843	439	N/A	479	1,793	2,144	19.6%	351	2,333	30.1%	539	2,538	41.5%	745	2,761	54.0%	968
Business	--	310	N/A	310	1,580	1,838	16.3%	258	2,000	26.6%	420	2,176	37.7%	596	2,368	49.8%	787
Tenant	--	163	N/A	163	206	456	122.0%	251	497	141.5%	291	540	162.8%	335	588	185.9%	382
Average household	--	173	N/A	173	1,407	1,498	6.4%	90	1,629	15.8%	222	1,773	26.0%	366	1,929	37.1%	522
Median household	--	154	N/A	154	1,362	1,397	2.6%	35	1,520	11.6%	158	1,654	21.4%	292	1,799	32.1%	437

We have allocated greater investment in this program over the PSP5 Period, targeting earlier intervention to support customers when they first need help and offering more forms of payment support. This will include providing additional effort in increasing the awareness of TasWater, early intervention for customer undetected leaks, increased investment in case management support for customers in need, warm referrals for customers to access other support services and support.

We will also increase our role in helping customers take greater control of their water use, and lower their bills, through education and water efficiency programs, including leveraging our successful annual water conservation campaigns to provide on-going and year-round support for customers to change their water usage behaviours. This will continue to focus on water literacy and water education, and new support for subsidised water efficient products and water efficiency audits, particularly for those struggling to pay their bills.

We will expand our communication about customer assistance to ensure those who need support are aware it's available. We will also check to ensure the support we provide is meaningful and effective for customers.

Our proposal will address our long-standing under-investment and pressing regulatory commitments. It will put TasWater on a sustainable footing for the future, by striking the balance of price and service outcomes that is fair for all Tasmanians both today and for tomorrow.

Section 1. The context for this proposal

1. Shaping Tasmania's water future

Our operating context

- Tasmania's unique history and geography are reflected in the mostly small, localised, ageing and poor performing assets we use to provide water and sewerage services today.
- We have significantly more assets per customer than our interstate peers, with varying levels of legislative compliance and service performance. On average, each of our water treatment plants serves 3,700 customers and each of our sewer treatment plants serves 2,500 customers. The average of our interstate peers is 71,500 and 40,500 customers per water and sewer treatment plant respectively.
- Over the past 12 years, we have invested to improve drinking water quality and security across the state – all whilst keeping prices generally in line with inflation.
- However, we must now focus our attention on lifting other aspects of our performance that are not comparable with a modern water utility, whilst also responding to the inflationary pressures that are impacting our business.
- Our ambitious, outcomes-based Strategy positions us to prepare for and respond to the changing world around us.
- Our PSP5 Proposal focuses our attention on delivering those outcomes that matter most to customers over the next four years.

This section of our submission sets out the key operating context and drivers relevant to the development of our PSP5 Proposal, including:

1.1 Our purpose and obligations
1.2 Our services
1.3 Our customers
1.4 Our people
1.5 Our history
1.6 Our governance and ownership
1.7 Our progress to today
1.8 Our strategy for the future
1.9 Our delivery over the next four years – PSP5

1.1 Our purpose and obligations

TasWater's purpose is to provide exceptional water and sewerage services for a thriving Tasmania.

We source, treat and deliver water to our customers to ensure they can live their lives, trusting that when they turn the tap on, they're getting high-quality water. We also collect, transport and treat sewage from homes and businesses and safely return effluent to the environment, doing our part to ensure Tasmanian waterways are protected for future generations.

But our role is greater than just taps and toilets. From our homes to our businesses, our ecosystems to our economy, our health to our heritage – the delivery of high quality, reliable water and the safe, efficient treatment of sewage is fundamental to all aspects of Tasmanian prosperity. A snapshot of our business is provided in Figure 1.1[13].

Figure 1.1. TasWater at a glance

13 All numbers above are current as at May 2025, with the exception of sewage treated and recycled water supplied, which are current at April 2025.

Our operations are subject to a range of legislative and regulatory requirements. We are governed by the *Corporations Act 2001 (Cth)* and have specific objectives that have been prescribed for us in the *Water and Sewerage Corporation Act 2012 (Tas)*, which we are obliged to meet. These include to:

- efficiently provide water and sewerage functions in Tasmania
- encourage water conservation, the demand management of water and the reuse of water on an economic and commercial basis
- be a successful business, and to this end
  - operate its activities in accordance with good commercial practice
  - deliver sustainable returns to its shareholders
  - deliver water and sewerage services to customers in the most cost-efficient manner.

Our prices for water and sewerage services are subject to economic regulation. Specific pricing obligations have been also prescribed for us in the Water and Sewerage (Pricing and Related Matters) Regulations 2001, made under section 66 of the *Water and Sewerage Industry Act 2008* (Tas). We are required to meet these obligations as well as satisfy the pricing principles set out in section 68 of this Act. These include:

- pricing that reflects only the efficient costs of doing business
- cost recovery pricing that is reflective of the costs incurred to deliver particular services to particular customers, so there is no double-dipping or over-recovery
- efficient pricing through a mix of fixed and variable charges, where variable charges are no greater than the variable costs of providing the service unless there are specific constraints or requirements to reduce demand
- pricing signals that promote economic efficiency, reduce costs or otherwise improve productivity.

1.2 Our services

TasWater manages 59 water supply systems that exist across our state. Together, these systems supply drinking water to almost 226,000 households and businesses. Each system is monitored from catchment to tap to ensure the best quality water is provided to the customer.

Each year, we produce 87,500 million litres (87.5GL) of water across our 6,600 kilometer network of water pipes. That's enough water to fill 35,350 Olympic swimming pools or 55 Melbourne Cricket Grounds, faciliated by a network of pipes covering the equivilant distance from Hobart to Singapore. Figure 1.2 shows that the amount of water supplied to residential versus non-residential customers has remained relatively consistent over time.

Figure 1.2. TasWater split of volume of residential and non-residential supplied, GL

Sewage, also known as wastewater, is the water that is flushed down the toilet and goes down the drains in the house, including from the bathroom, kitchen and laundry sink.

We treat more than 53,000 million litres (53GL) of sewage each year via a vast network of underground sewer pipes spanning almost 5,000 kilometres, longer than the coastline of Tasmania. This also includes trade waste from business and commercial customers, which refers to liquid waste that is more variable in volume and quality than typical household sewage.

From our sewage treatment plants, we also treat effluent to create recycled water. By removing solids and pathogens, this can be beneficially reused to minimise our environmental footprint.

We also provide a number of other services that are not subject to price regulation, including industrial trade waste treatment and disposal, recycled water and irrigation.

Depending upon the level of treatment, recycled water can be safely used for a variety of non-domestic purposes including irrigation of farmland, golf courses, vineyards, horticulture and nurseries and for industrial purposes.

1.3 Our customers

TasWater provides water and sewerage services to a total of more than 225,000 connections across Tasmania, encompassing both households and businesses. This represents approximately 470,000 Tasmanians. The Tasmanian communities and customers we serve are diverse and varied, with each region having its own history of water and sewerage services.

For the purposes of this PSP Proposal, we have the following main regulated customer classes:

- Water customers (both full and limited service): more than 225,000 individual properties connected.[14]
- Sewerage customers: more than 196,000 individual properties connected
- Commercial trade waste customers: 3,900 customers

A more detailed description of customer classes is provided in *Chapter 15 Our proposed water and sewerage prices*.

One of the ways we think about our diverse customer base is to consider the different parts, or segments, within the Tasmanian community. The customer segments are provided in Table 1.1.

Table 1.1. TasWater residential customer segments

Segment	Description	Key Locations	Customer Base/ Population Served	Typical Water Use Profile	Service Considerations
Urban Areas	Densely populated urban centres and surrounding suburbs	Greater Hobart, Launceston	Customers: 138,000 Population: ~340,000 (over 50 per cent of state population)	Standard suburban customers living in fully serviced metro or regional zones 184 kL per annum	High infrastructure complexity, demand management, growth pressure
Regional Centres	Mid-sized towns acting as local economic and population hubs	Devonport, Burnie, Ulverstone, New Norfolk, Latrobe	Customers: 46,000 Population: ~80,000	Standard suburban customers living in fully serviced metro or regional zones 175 kL per annum	Aging infrastructure, localised growth, tourism impact
Rural Residential	Low-density areas with individual dwellings often outside serviced land areas	Central Highlands, Huon Valley outskirts, West Coast	Customers: 38,000 Population: ~60,000	Lower average usage per connection, often tank or bore supplemented 192 kL per annum	High cost-to-serve, need for digital communications and targeted support
Remote Communities	Isolated, small population clusters with limited access to full services	King Island, Flinders Island, remote West Coast townships	Customers: 4,000 Population: <10,000	Very low volume, but high service reliance 130 kL per annum	Logistical challenges, service continuity, equity and affordability

14 Water and sewer connections as at 30 April 2025.

1.4 Our people

With more than 927 employees[15] located throughout Tasmania, our team spans multiple fields, including operations, engineering, project delivery, environmental science, laboratory services, asset management, digital and technology and customer services.

Together, we share a common goal: unlocking water's full potential. We make this happen aligned to our organisational values, outlined in Figure 1.3.

We are committed to providing a healthy and safe work environment for our people and partners, who play a vital part in delivering services for our customers. This includes our commitment to ensuring the public remains safe from our operational and construction related activities. As part of our broader safety management system, we have a focus on fostering a culture where leaders purposefully drive health, safety, and wellbeing outcomes as part of everyday business activities.

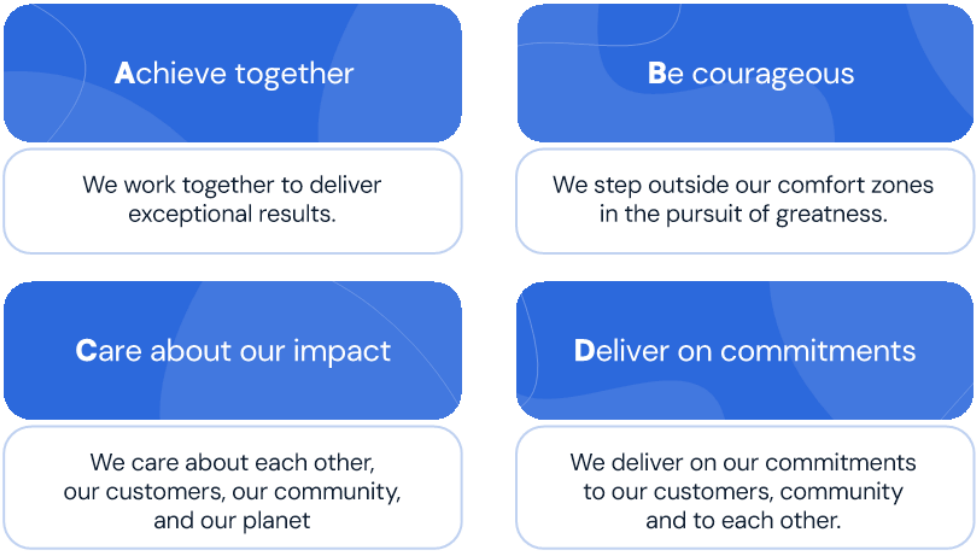
1.5 Our history

TasWater is the custodian of Tasmania's water and sewerage services and assets. Many of the current water and sewerage systems that are operated by TasWater today have a rich history.

Both the water supply for Hobart (from Mt Wellington) and Launceston (from Distillery Creek) date back to the mid-1800s. Indeed, Tasmania's history and geography are reflected in the assets we use to provide water and sewerage services today. The many small regional towns across our hilly topography gave rise to localised water and sewerage systems originally operated by local councils. The lack of integrated planning outcomes across council boundaries led to an increase in the number of assets being maintained by TasWater, an example of this is the 110 sewage treatment plants across the state.

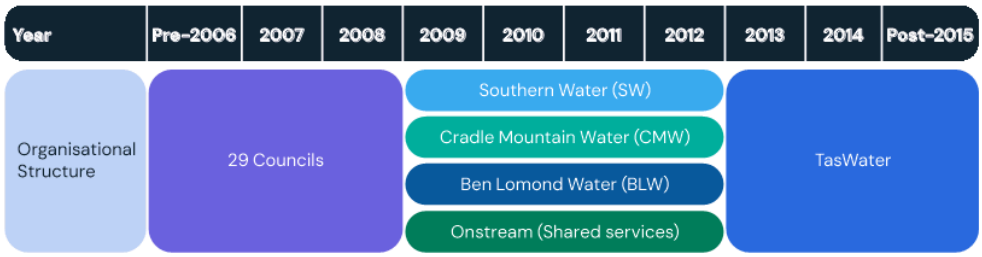
These water and sewerage systems were the responsibility of local councils for many decades. An inconsistent approach in quality and pricing of services was the inevitable result, with local councils eventually choosing to move to a single corporation – firstly via three regional water

Figure 1.3. TasWater organisational values



15 This is our headcount as at May 2025.

Figure 1.4. Timeline of structural reform

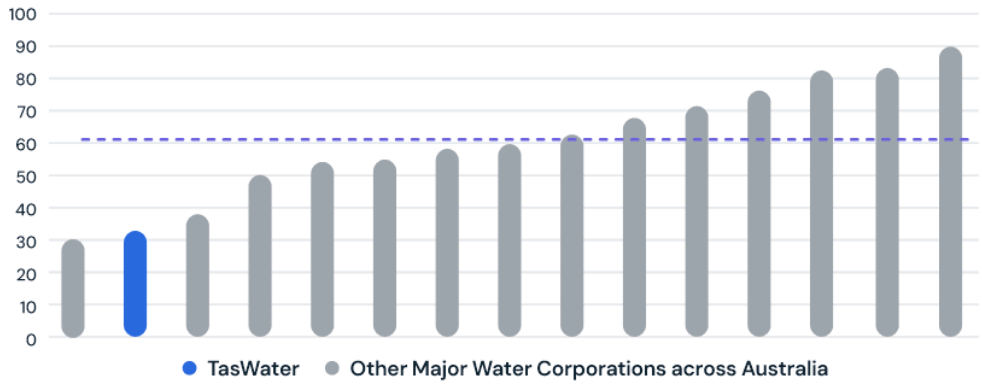


corporations and a shared service business, and then to TasWater in 2013. TasWater was transferred approximately $2 billion in water and sewerage assets from the previous ownership by 29 local councils. The timeline of reform is summarised in Figure 1.4.

As a result of this history, TasWater had some unique challenges at its inception, many of which must still be addressed:

- We have significantly more assets per customer than our interstate peers, evidenced by the fact that we own and operate 38 per cent of Australia's water and sewage treatment plants for just two per cent of Australia's population served by major water utilities.
- We have the second smallest number of properties served per kilometre of water mains with 34 customers per kilometre, or approximately half the average of major water businesses (Figure 1.5)[16].
- We have the smallest number of customers per kilometre of sewer mains in the country with 39 customers per kilometre compared to the average of major water businesses of 64 (Figure 1.6).
- On average, each of our water treatment plants serves 3,700 customers and each of our sewer treatment plants serves 2,500 customers (Figure 1.7). The average of our interstate peers is 71,500 and 40,500 customers per water and sewer treatment plant respectively.
- Our inherited assets varied significantly in terms of their size, scale and level of condition and performance, meaning that customer service levels are vastly different across the state and customers receive poor quality services in some areas.

Figure 1.5. Major water businesses: Number of properties served per km of water main (properties/km)



16 Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24).

- A large portion of our inherited assets did not comply with legislative obligations for water quality, environment and dam safety, resulting in a significant performance gap to meet these increasing legislative obligations.

Further details of these inherited challenges are set out in Chapter 8 of this submission.

Figure 1.6. Major water businesses: Number of properties served per km of sewer main (properties/km)

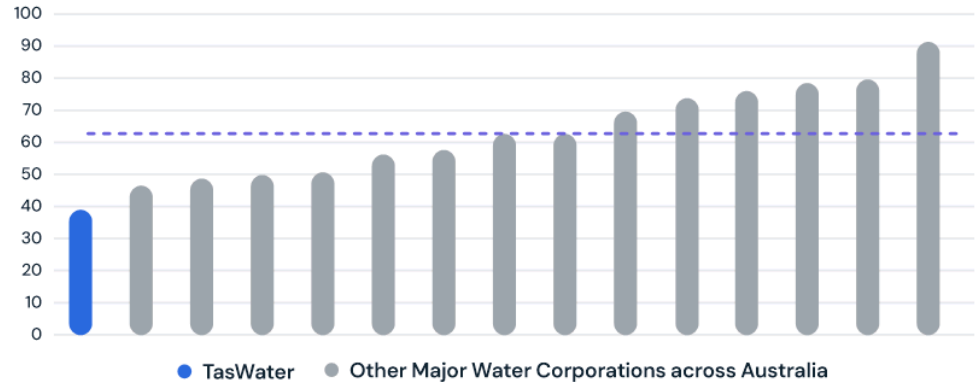
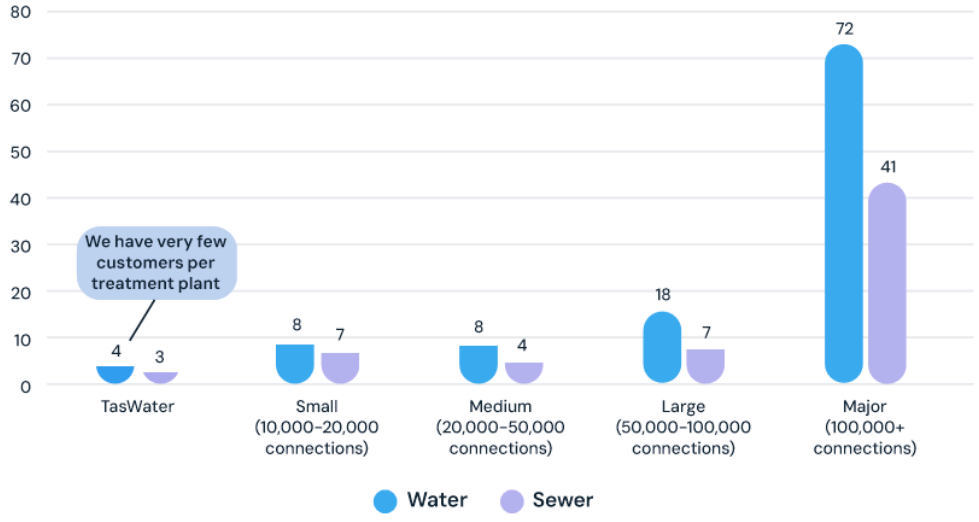


Figure 1.7. Entire industry: Number of connected properties ('000s) per treatment plant: water and sewer ('000s properties/plant)



1.6 Our governance and ownership

TasWater remains owned by Tasmania's 29 local councils and the State Government, who appoint the independent skills-based Board of TasWater. The owners of TasWater issue a Shareholder Letter of Expectations to provide guidance to the TasWater Board for governance of the organisation.

The local council owners are shareholders in TasWater and are paid dividends, generated from our underlying annual profit[17]. The State Government does not receive a dividend. The local councils use the dividends to continue investing in their local communities.

Like similar infrastructure businesses that are regulated, we must remain financially sustainable while planning and delivering the necessary services for current and future customers, and providing a responsible return to our local council shareholders.

1.7 Our progress to today

Since its inception in 2013, TasWater has made progress in improving some vital aspects of its services to Tasmanians, while keeping prices generally close to inflation.

Our early years were focused on the establishment of a statewide operating model and asset management system, assessing the condition and performance of assets and completing statewide strategic asset management plans for the first time. We have also commenced other integrated statewide plans such as our water security plan. At the same time, TasWater also implemented the final transition to harmonised, two-part pricing across the state.

In 2018–19, after TasWater's completion of major capital projects in key regional towns, longstanding Public Health Alerts ('Boil water' and 'Do not consume') were lifted from the last of 24 regional towns and four additional towns that regularly received these alerts across Tasmania.

This program saw us invest over $100 million in 28 drinking water systems with upgraded treatment processes across the state.

Our generational investment in drinking water in Tasmania culminated in the completion of a major upgrade to the Bryn Estyn Water Treatment Plant, securing Hobart's drinking water supply for another 50 years. Further details of our journey to drinking water compliance are provided in Section 4.3 of this submission.

In the past seven years, 18,100 new connections were added to the state's water network, and more than 13,000 properties were connected to sewerage services.

To achieve this, we not only established and improved our asset planning capability, but we transformed the way we deliver major capital projects, establishing our Capital Delivery Office (CDO) with alliance partners CPB Contractors Limited and UGL Limited (both members of the CIMIC Group) with support from WSP Australia.

Through the CDO, we have now delivered more than $1.0 billion in capital projects since 2019 and we have lifted our capital infrastructure delivery to record levels. At the same time, the new CDO processes independently verify that our capital investments are prudent and efficient and deliver value for money to customers. We have demonstrated we can deliver an increasing capital program and have the capability to deliver our PSP5 proposed capital expenditure (refer *Chapter 8 Our efficient capital costs*).

As we approach PSP5, we have refreshed our strategy, completed our regional master plans, reaffirmed our focus on prudency and efficiency and uplifted our capability to engage and understand our customers' preferences.

The PSP5 process provides customers the opportunity to recalibrate our plans and seek to find the balance of price and service that is fair for all Tasmanians.

17 Underlying profit is a financial metric used to provide a clearer picture of earnings from regular business operations. It excludes one-time gains or losses and gifted assets from developers and the impact of asset revaluations.

1.8 Our strategy for the future

Our Strategy is the culmination of more than 12 months of research and engagement during 2023-24 and sets an ambitious and outcomes-based direction for TasWater.

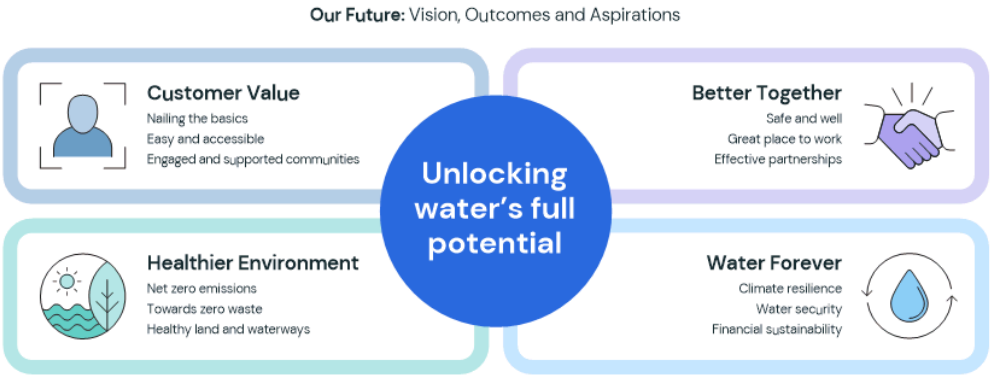
It reflects the voice of TasWater's people, our customers and stakeholders, and positions us to prepare for and respond to the changing world around us.

It also marks a new era for TasWater. An era where we strive to unlock water's full potential, so that we can support our community, our unique Tasmanian environment and the places where we live, work and play – now and for generations to come.

Our Strategy is centred around the delivery of four key customer outcomes. We have set ourselves 12 bold and future-focused aspirations across these four outcomes.

Taken together, our vision of unlocking water's full potential, our four customer outcomes and our 12 key aspirations describe our desired future – for TasWater, for Tasmania and all Tasmanians. These are outlined in Figure 1.8.

Figure 1.8. TasWater's Strategic Aspirations



1.9 Our delivery over the next four years – PSP5

Our PSP5 Proposal sets the guardrails for delivery of our Strategy over the next four years. With this in mind, we wanted to develop our PSP5 Proposal in collaboration with our customers to ensure that we focus on what matters most to our customers as we work towards our long-term vision and aspirations.

Customer engagement was therefore at the heart of our process to develop our PSP5 Proposal, complemented by extensive stakeholder engagement, rigorous technical analysis (including specialist advice from experts) and meaningful Board deliberations over an 18-month period.

We have also worked collaboratively with our technical regulators the Department of Health, the Environment Protection Authority and Natural Resources and Environment to ensure we are aligned on the priority projects that must take place during this period. This process has been captured in summary in Figure 1.9.

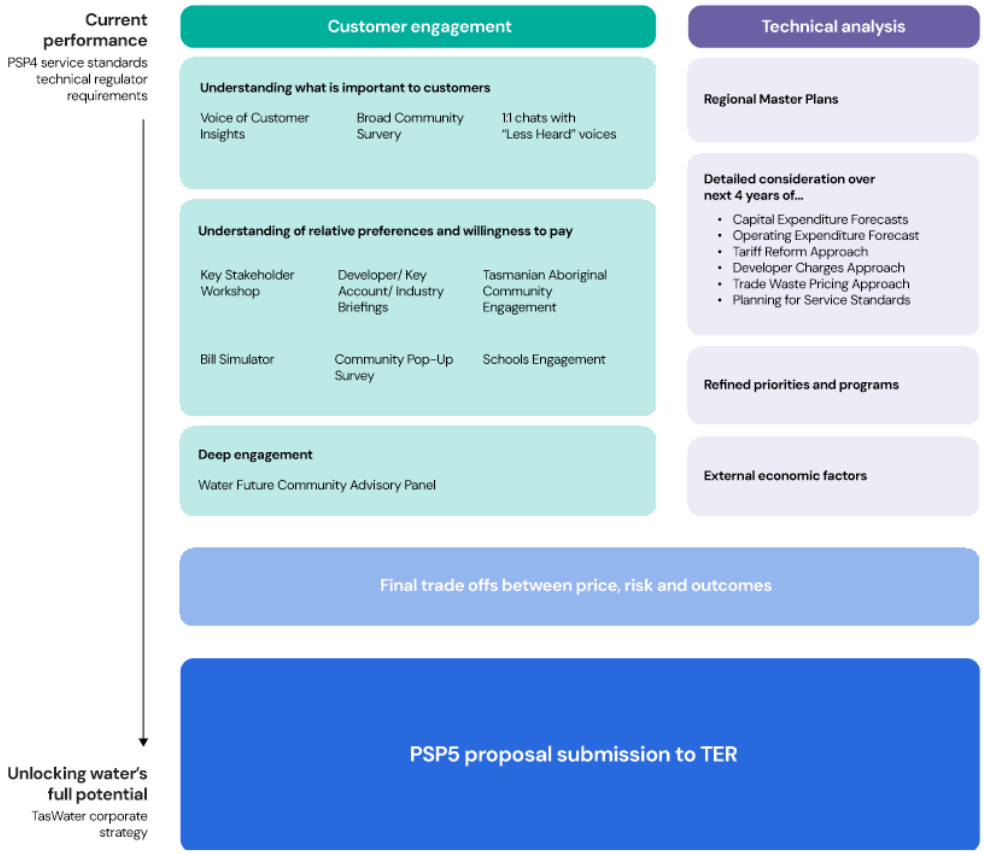
The result is a PSP5 Proposal that clearly sets out what it is that we need to focus on over the next four years, informed by what we heard from our customers and technical regulators.

We have prepared the PSP5 Proposal in accordance with the TER's Price and Service Guideline for the fifth regulatory period.

Appendix for *Chapter 1 Shaping Tasmania's water future*

- Appendix A: TasWater Corporate Strategy

Figure 1.9. Our process for developing this submission



2. Our proposal comes at a challenging time for the industry

Our proposal in a national and international context

- While all price proposals face different circumstances, our PSP5 Proposal comes at a particularly challenging time for the water sector and its customers.
- We, like water businesses across Australia, have kept typical water bills close to constant in real terms over the last decade.
- The industry is increasingly challenged by a much greater need to invest, driven by a range of factors including ageing infrastructure, climate pressures, increasing regulation and a growing population.
- Deferring much needed capital investment ignores the challenge and the reality we must confront and has greater financial and non-financial costs.
- A useful case study is the recent water and sewerage crisis experienced in the United Kingdon (UK). The UK water crisis is now under heightened scrutiny after widespread environmental non-compliance, leakage and lack of water security was publicly exposed over the last several years.
- It is now widely recognised that deferral of critical investment in the last decade in the UK was the principal cause of the crisis, which has been reflected in the Government's wide-ranging review of the water sector.

This section of our submission sets out the national and international context for our PSP5 Proposal, including:

2.1 Our dilemma is common in the water industry – to meet increasing investment needs while balancing affordability

2.2 Water prices have decreased in real terms across the country – this is not sustainable

2.3 However, major investment is urgently needed across the industry

2.4 Why water business cannot delay – lessons from home and abroad

2.5 The cost of delay is more than just financial

2.6 Affordability concerns must be balanced, not used as a reason to delay investment

2.1 Our dilemma is common in the water industry – to meet increasing investment needs while balancing affordability

While each regulatory period faces different circumstances, our PSP5 Proposal comes in particularly challenging economic conditions. We are acutely aware that the cost of living is a major concern of our customers. The affordability of water and sewerage services has been given heightened focus from the industry, including here in Tasmania.

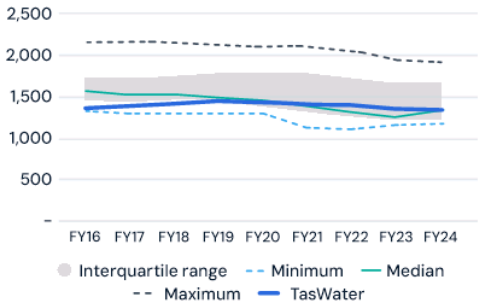
At the same time, the industry has a greater need to invest than ever before. Ageing infrastructure, the need for acceptable environmental outcomes, a growing population and climate change are all increasing the need for investment across the industry. Our own dilemmas, here in Tasmania, are also driving increased need for investment, including our poorly performing asset base, increasing regulation and community expectations and the need to rationalise and modernise our infrastructure.

This becoming an increasingly difficult problem to solve for the industry, however it is a problem that cannot be avoided[18]. Our PSP5 Proposal is now our opportunity to address this challenge.

2.2 Water prices have decreased in real terms across the country – this is not sustainable

Following the transition to our current tariff structures in (largely occurring in the PSP1 and PSP2 periods), our bills have effectively stayed constant in real terms, as outlined in Figure 2.1. Since 2019, we have capped all price increases at 3.5 per cent including inflation and we froze our bills for the two years following the COVID-19 pandemic. Water businesses across Australia have also kept bill increases low. In the same period, the median water bills of the major water businesses across Australia, has slightly decreased in real terms.

Figure 2.1. Typical water and sewerage bills for major water businesses since 2015-16 ($real 2023-24)[19]



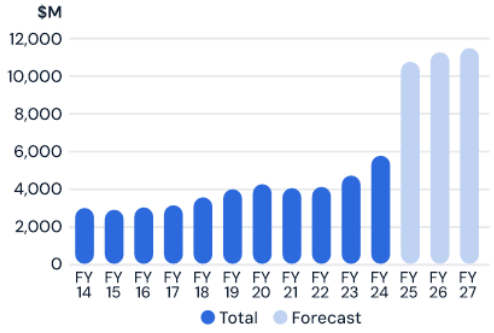
2.3 However, major investment is urgently needed across the industry

Australia's water businesses are now facing increasing investment pressures. Facing ageing infrastructure, climate pressures, increasing regulation and growing population, a new wave of essential capital investment has just commenced. The investment need is growing at the same time as real input costs for construction and the cost of capital have also been increasing.

The combined total capital expenditure of the major water businesses in Australia exceeded $5 billion in 2023-24 and is expected to exceed $10 billion per year in the next three years, a permanent step-change to investment requirement (Figure 2.2)[20]. This increase mirrors our increasing capital spend profile here in Tasmania, as we have addressed our own challenges such as drinking water quality in the last 10 years.

18 Water Services Association of Australia. Sleepwalking into a water crisis – latest data released in National Performance Report. April 2025.
19 Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24). This is the water and sewerage bill for a customer using 200kL per annum - for major water businesses.
20 Water Services Association of Australia. National Water Reform 2024 - *Submission to the Productivity Commission Review of the National Water Initiative*. February 2024.

Figure 2.2. Capital expenditure invested by major water businesses ($million real 2023-24)[21]



The increased need for investment has been reflected in greater proposed price increases in recent times in other jurisdictions. Unfortunately, customer bills will need to increase to support water businesses achieving sustainable cost recovery. While water businesses have kept bill increases low, the industry cannot delay in making the necessary investments to address these generational challenges. In recent times, many other Australian water businesses have needed to increase prices in real terms to meet their investment needs. These include:

- Icon Water's prices increasing by 5.9 per cent per annum including inflation[22] in its current regulatory pricing period, which commenced 1 July 2024. Its investment drivers include improving environmental outcomes and water security, while addressing ageing infrastructure.
- SA Water's prices are increasing by 6.3 per cent per annum including inflation in its current regulatory pricing period, which commenced 1 July 2025. Its investment drivers were to cater for growth, increase renewals investment and improve environmental performance in key regions.
- Hunter Water's prices, under a recent IPART draft decision, will increase by 6.3 per cent per annum including inflation for its upcoming regulatory pricing period commencing 1 July 2025. Its proposed investments are focused on water security for its growing population and considering the risk of a changing climate.
- Sydney Water's prices, under a recent IPART draft decision, will increase by 7.3 per cent per annum including inflation in its upcoming regulatory pricing period commencing 1 October 2025. Its investment drivers are primarily water security and catering for growth, although significant growth capital investment has not been included in IPART's draft determination.

2.4 Why water businesses cannot delay - lessons from home and abroad

Our own long-term modelling is supported by the lessons learnt from other jurisdictions. Both indicate that a failure to act now and invest in our water and sewerage assets will lead to greater long-term cost to customers. For example, a failure to invest in our assets will likely result in:

- Environmental degradation and regulatory breaches.
- Regulatory prosecution for failure to meet treatment standards.
- Infrastructure failures, service disruptions and rising long-term costs as minor repairs become major overhauls and/or operating and maintenance costs increases.
- Growing water insecurity as climate change impacts our systems and we can't keep up with population and housing growth.

The water crisis experience in the UK offers a lesson. As in Australia, the UK water business, which are subject to similar economic regulation, kept their bills low for an extended period, falling in real terms since 2009[23].

However, the much-needed capital investments required in the UK were never made.

The under-investment and poor performance resulted in a widespread crisis. Water customers

21 Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24).
22 All price increases references include an inflation assumption of 2.72 per cent per annum.
23 WaterUK. The real (terms) story of historic water bills. 29 November 2024.

in the UK become aware that water businesses had released raw sewage into UK waterways for a total of 3.6 million hours in 2023-24 and that environmental non-compliance was common across sewage treatment plants[24]. They learnt that communities would be facing water shortages in the coming 10 years and that water businesses had failed to take action on system leakage, failing to invest adequately in water and sewerage system renewals. In media reporting of the crisis, it was observed that "fearful about the consequences of hiking prices on the public, the water companies and their regulators combined in a game of do and mend" instead of making the investments required[25].

The level of environmental pollution and failing infrastructure has led to widespread public shock and deterioration in public trust. In response, the UK Government has commenced the 'largest review of the water sector since privatisation', promising a total 'reset' of the water industry. The Independent Water Commission has commenced and will "report back next year with recommendations to the Government on how to tackle inherited systemic issues in the water sector to restore our rivers, lakes and seas to good health, meet the challenges of the future"[26].

The UK economic regulator, Ofwat, has just released its most recent five-year determination on water business prices. In response to the public outcry, both water businesses and regulator are looking to address the generational challenges. Across the industry, the UK water businesses will invest more than $200 billion ($AUD) over the five-year period 2025 to 2030.

This is a doubling of current capital investment levels and will focus on addressing the UK's past under-investment in sewage treatment, water and sewerage networks and water security. These investments require increasing customer prices and vulnerable customer support[27].

However, there are still some water industry experts that believe that Ofwat are applying a "do and mend" approach to the challenge. UK Economist Sir Dieter Helm (an invited speaker at the Australian Competition and Consumer Commission 2024 Regulatory Conference) has written about the latest Ofwat price determination:

What everyone agrees about is that the provision of both water and sewerage services needs a big upgrade. The right question that Ofwat should be asking is: what water and sewerage systems are needed to meet the needs of the mid-21st century, and then how to get from here to there. Instead the question Ofwat asks is: given the current water and sewerage systems, what are the minimum set of incremental increases in capital maintenance and investment needed to stop things getting worse, and to make some limited progress, all constrained by Ofwat's concept of affordability. Put simply, what is the minimum that has to be done at minimum cost to consumers.[28]

2.5 The cost of delay is more than just financial

The UK experience, now confirmed in the most recent price determination, demonstrates that long-term cost of supply will increase if essential capital investments are deferred. However, there are a range of non-financial costs and risks that emerge. The most serious of these are the legal and regulatory risks and the risk to public trust.

Legal and regulatory fines, lawsuits, and stricter oversight follow service failures and pollution breaches. As a result of the UK crisis, the UK Government's Environment Agency is working on its largest ever criminal investigation. It is currently investigating the potential breaches of environmental permits at more than 2,200 sewage treatment plants[29]. At the same time, the Environmental Agency has launched a new whistleblowing portal and the UK Government is

24 BBC. The water industry is in crisis. Can it be fixed? 25 October 2024.
25 The Telegraph. How Britain's water supply spiralled into chaos. 8 December 2024.
26 UK Government. Governments Launch largest review of water sector since privatisation. 22 October 2024.
27 Ofwat. Our final determinations for the 2024 price review. April 2025.
28 Helm, Dieter. A bad answer to the wrong questions – Ofwat's interim determination and its Turnaround Oversight Regime for Thames Water. 15 July 2024. 26 UK Government. Update on Environment Agency investigation. 3 February 2025.
29 UK Government. Update on Environment Agency investigation. 3 February 2025..

exploring options to increase the environmental compliance regime to be able to better prosecute environmental non-compliance[30].

The loss in public trust in the UK water sector has been evident (Figure 2.3). In one of many such studies conducted in late 2022, Ofwat found that community trust in water businesses had declined. Only a third of UK customers trusted their water company to prevent sewage from entering rivers or seas (Figure 2.4)[31]. Over time, trust has fallen in water companies' abilities to perform a range of responsibilities, including ensuring good quality drinking water and providing a reliable service. Ofwat admitted:

This year, trust in the water sector has started to feel precarious. Against a backdrop of rising concerns about the release of untreated sewage into rivers, drought warnings and leakage, customers and stakeholders have told us that their trust in the sector has been shaken.[32]

Figure 2.3. Lack of investment and poor performance led to widespread loss of public trust in the UK[33]

The deferral of investment will not only result in costs but also lost opportunities. Delayed investment means falling further behind in innovation, sustainability, and operational efficiency.

The UK experience shows that deferring critical investment is not only more expensive, but it has also caused far greater long-term damage to the industry.

2.6 Affordability concerns must be balanced, not used as a reason to delay investment

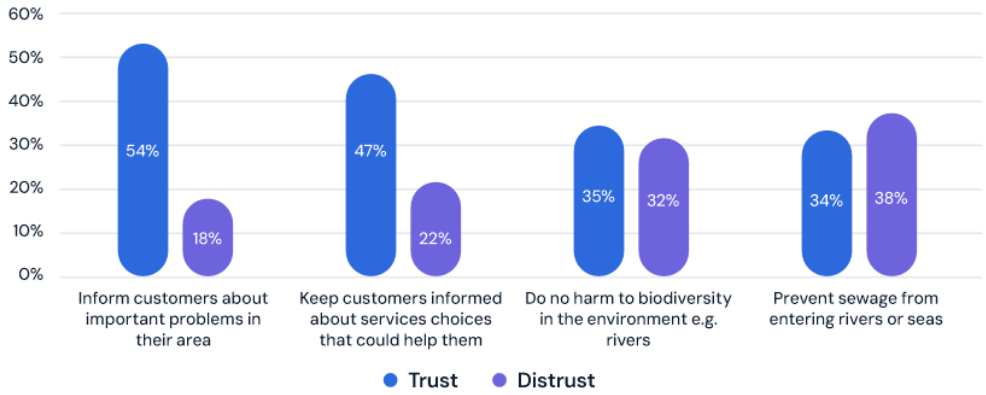
The lesson from the UK water crisis is clear, planning and investment is required to get the Australian water sector on a sustainable footing. The parallels are also clear in the Tasmanian context. Our dilemmas are indeed almost identical to those faced by the UK water sector.

Deferring required investment is not a sustainable form of price and bill relief, it simply transfers greater costs to the future. In addition, failure to address the performance issues that we currently face breaches the public's trust in the water sector.

Efficient investment today in water and sewerage services is the only way to ensure their performance, availability, safety, and affordability in the future.

30 UK Government. Water companies and sewage pollution: Repairing damage using revenue from fines. 3 February 2025.
31 Savanta, prepared for Ofwat. Trust and perceptions – People's views on the water sector. February 2023.
32 Ofwat. Trust in water. 16 February 2023
33 The Guardian. How could England's water system be fixed? 10 January 2024.

Figure 2.4. UK water customer trust survey results in 2023[34]



Appendix for *Chapter 2 Our proposal comes at a challenging time for the industry*

- Appendix B: National and International Context

34 Savanta, prepared for Ofwat. Trust and perceptions – People's views on the water sector. February 2023.

Section 2. The customer outcomes we will deliver

3. Our collaborative approach with customers

Our collaborative approach to PSP5

- We are the only providers of essential water and sewarage services in Tasmania, so it is important that we ensure our priorities reflect community expectations.
- In the past, we relied on targeted customer engagement to inform our PSP proposals. For PSP5, we recognised that the challenges we are facing warranted a different, and a much wider engagement approach.
- We co-designed our engagement program with key stakeholders, as the first step in being genuine, transparent and open-minded in our conversations with customers.
- We then undertook our largest and most innovative engagement program ever, with more than 8,000 interactions with Tasmanians from all walks of life.
- Our wide engagement activities – including our online bill simulator, which gave customers the ability to demonstrate willingness to pay for different service levels in the context of overall bill impacts – helped us understand what is most important to customers.
- Our deep engagement activities – such as our first deliberative democracy process, the *Water Future Community Advisory Panel* – gave customers the time, support and information to grapple with our dilemmas and make detailed recommendations in response.
- The result is a PSP5 Proposal that has been informed by the voice of our customers and stakeholders. We welcome the opportunity to continue the conversation through the public process that commences with submission of this proposal to the regulator.

This section of our submission sets out the key insights that we have received from customers in the preparing in the development of our PSP5 Proposal, including:

3.1 Our transformative engagement approach for PSP5
3.2 Our engagement program – *Shaping Tasmania's Water Future Together*
3.3 Our customers' willingness to pay – *The bill simulator*
3.4 Our first ever deliberative panel – Water Future Community Advisory Panel
3.5 Our response to the panel's recommendations
3.6 How what we heard aligns with our Strategy

3.1 Our transformative engagement approach for PSP5

Before starting any conversations with the community, we undertook a comprehensive process to co-design our engagement approach in six workshops held between May and September 2023. This process incorporated the views of several significant stakeholder groups and invited stakeholders in as 'critical friends' to review and give feedback as we designed our approach. The stakeholder group who participated represented a wide range of the community, including organisations who represent community services, vulnerable customers, small business, large businesses and development community.

The outcome was a Strategic Engagement Plan[35] which made the commitments outlined in Figure 3.1 regarding the engagement process, consistent with the standards established by the International Association of Public Participation (IAP2)[36].

In co-designing our engagement approach, we realised that balancing short-term price impacts with long-term service outcomes was at the heart of our challenge for the upcoming regulatory period. We therefore developed a remit – a central question articulating our challenge – to guide all of our conversations with customers. The remit is outlined in Figure 3.2.

Figure 3.1. Our engagement promise

Figure 3.2. Our engagement remit

35 The TasWater – Shaping Tasmania's water future: Strategic Engagement Plan is provided in the supporting material.
36 The standards established by the IAP2 and the associated public participation spectrum are a reference point for this type of customer engagement. The type of engagement undertaken depends on the issue, scope, timing, public interest and available resources. The choice to inform, consult, involve, collaborate or empower considers the degree of influence the community could have or be expected to have. We aimed for an overall approach to 'collaborate'.

3.2 Our engagement program – *Shaping Tasmania's Water Future Together*

In total, we had more than 8,000 interactions with Tasmanians from all walks of life through the breadth of engagement activities we undertook from March 2024 onwards. Our 'Water. It's Tasmania's thing' campaign reached 200,000 Tasmanians. Out of this campaign, more than 3,500 Tasmanians registered their interest to be involved in PSP5 engagement and nearly 2,000 participated in our 'broad survey'.

Our broad survey started with a wide-ranging set of questions to discover what was important to customers. We invited them to share their experiences, expectations, needs and values regarding our supply of water and sewerage services and our contribution to the Tasmanian community.

We were keen to hear from as many people as possible, so we offered a range of ways to get involved. To ensure our engagement was representative and inclusive, we employed specific engagement methods for 'less heard' voices. Of those customers who registered, we extended invitations to participate in interviews to people who identify as Aboriginal or Torres Strait Islander, those living with disability, and those whose primary language isn't English.

We then went deeper into the specific choices and trade-offs that we will need to make, about the things that matter most to customers and stakeholders, as we tried to find the balance of price and service that is fair for all Tasmanians.

We identified eight key themes that had emerged in the feedback provided by our customers and community[37]:

INSIGHT 1 – Keeping bills affordable is a top priority, but many customers are willing to pay more for better services.

INSIGHT 2 – Fixing leaks and responding to faults quickly is the area where most customers want us to improve our service.

INSIGHT 3 – Providing reliable services is supported by a diverse range of customers, even those who don't have enough to meet their basic expenses.

INSIGHT 4 – Being easy to deal with is a fundamental expectation of customers.

INSIGHT 5 – Protecting our waterways is considered as a key priority, rather than an optional extra or "nice to have".

INSIGHT 6 – Charging based on usage was strongly supported, with a preference for it to be easier to alter the size of a bill by using less water and to encourage water conservation.

INSIGHT 7 – Securing our water future and addressing the challenges of climate change are important to our community, especially younger people.

INSIGHT 8 – Perspectives of TasWater are varied, with generally positive sentiments contrasted by some customers and community who remain dissatisfied.

We also spoke with 86 representatives of the development industry via targeted, statewide forums. We heard that, apart from a desire to keep developer charges low, developers value simplicity and certainty in the developer charges framework.

Our business customers also attended a series of forums to hear about our planning for the future. We heard that they particularly value information around trade waste charges as well as a forward view of construction and development pipelines. When it comes to trade waste charges and compliance, these customers require transparency, simplicity and great customer service.

We consulted with the Tasmanian Aboriginal community through a workshop exploring our key dilemmas. The workshop was facilitated by Sarah Wilcox, a proud Palawa woman from Lutruwita/Tasmania and an IAP2 trained practitioner. Importantly, she is a trusted advocate and voice for the Tasmanian Aboriginal community.

37 These eight themes are expanded upon in our Community Engagement Report that is provided as Supporting Information to this PSP5 Proposal.

The following statement was provided by the members of the workshop:

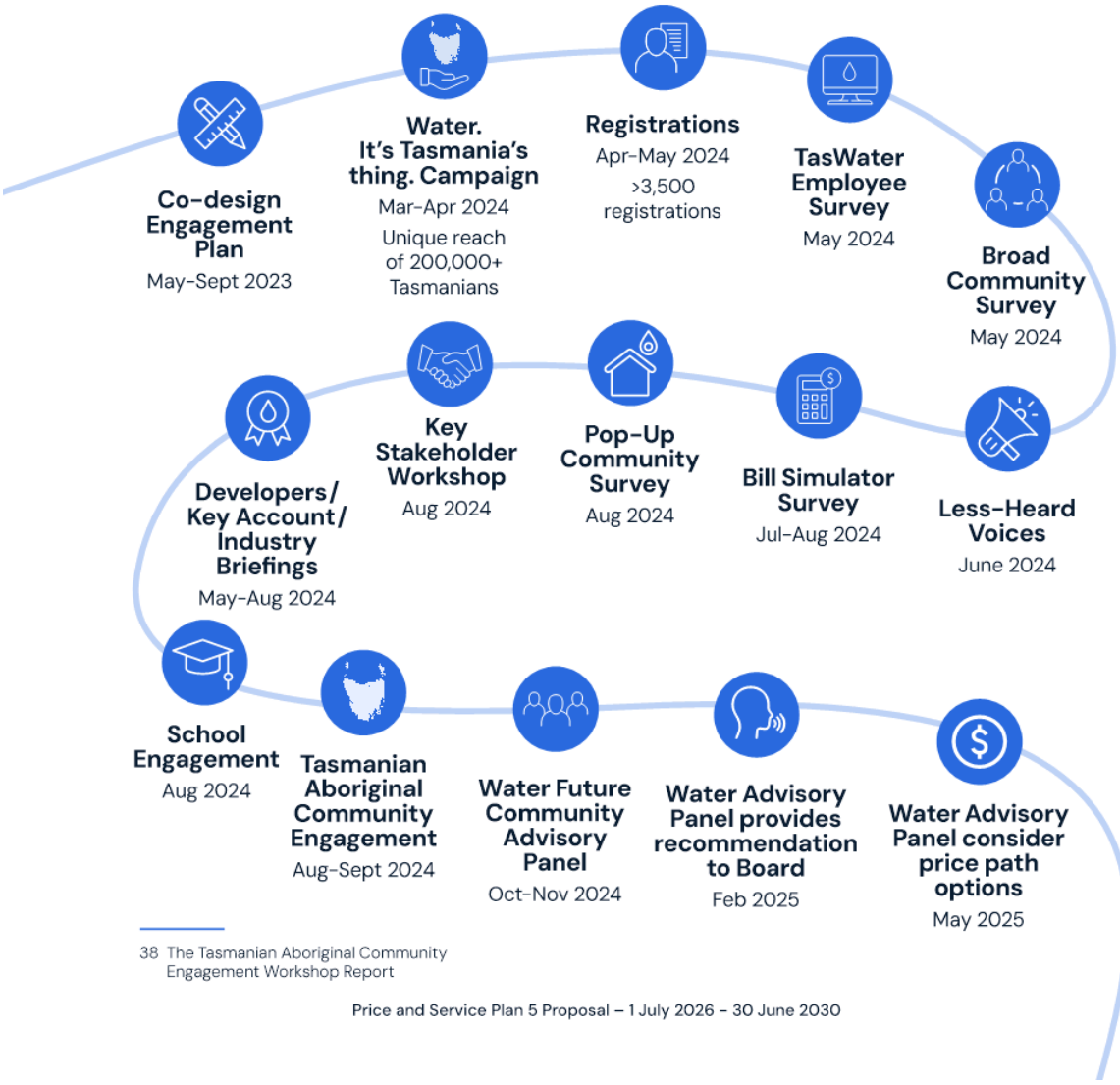
Water is life. Life is water. Always was. Always will be.

Amongst a range of valuable feedback, the feedback from the Tasmanian Aboriginal community emphasised "improving the ageing infrastructure and waste treatments to avoid cross contamination and pollution events" and supporting lower socio-economic families across Tasmania[38].

They also emphasised protecting cultural heritage, addressing climate change impacts, especially on islands, and reducing water wastage for long-term sustainability.

The breadth of engagement activities we undertook in this phase, and the number of participants who shared their views with us, are shown in the Figure 3.3 and Table 3.1 below. Further information regarding the results of the community engagement is provided in the supporting information to this chapter.

Figure 3.3. Summary of TasWater community engagement



38 The Tasmanian Aboriginal Community Engagement Workshop Report

Table 3.1. Timeline and reach of community engagement

Engagement type	Dates	Number of participants
Co-design Process	May-Sept 2023	119 participants 15 'critical friends'
Water. It's Tasmania's thing. Campaign	March-April 2024	> 3,500 registrations
Broad Community Survey	14-31 May 2024	1,898 responses
Less-Heard Voices	18-27 June 2024	19 conversations
Bill Simulator Survey	24 July – 4 August 2024	1,311 responses
Pop-Up Community Survey	3 August 2024	> 650 people reached 146 survey responses
Key Stakeholder Workshop	9 August 2024	14 participants
Schools Engagement	22-30 August 2024	> 223 survey responses 17 creative entries
Developers / Key Account / Industry Briefings / Local Government engagement	Industry briefings (May) Developer forums (June) Business forums (Aug) LGAT Conference (Sep)	314 attendees 86 attendees 31 attendees 40 attendees
Water Future Advisory Panel	October 2024 – May 2025	45 participants
Total		**8,378 interactions**

3.3 Our customers' willingness to pay – the Bill Simulator

In July and August 2024, we ran an online survey for Tasmanians to indicate how they wanted to balance the services they valued with the affordability they need. We heard through our broad engagement activities that keeping bills affordable was the number one priority for customers, so testing bill impacts was considered as a critical next step in our engagement process.

We used an online survey platform known as a Bill Simulator to give respondents real world descriptions and examples of some of the trade-offs that we are facing – for example, how much should TasWater invest to reduce leaks? The Bill Simulator was completed by 1,311 residential and business customers, providing robust quantitative research data on the willingness to pay for different levels of service.

Customers had the choice to spend less, as well as more, corresponding to different levels of service. The impact of their choices, in terms of preferred levels of service, were shown in terms of the annual bill impacts for pensioners, average households, large households, tenants and businesses – both in dollar and percentage terms.

Importantly, customers were presented with a scenario where bills were already increasing by $100 per annum, providing the base from which they would then indicate their willingness to pay. Considering the overall impact of their initial answers, respondents could then navigate back and rebalance their choices. The purpose of the Bill Simulator was to draw out specific feedback from customers about how TasWater should prioritise its investment across its different services.

Presentation of Bill Simulator results

Ultimately, all the choices made by respondents – in terms of increases or decreases to customer bills, corresponding to the level of service they would like – could be added up to find out what TasWater's total revenue requirement might be. As more customers chose to increase bills for higher levels of service on the Bill Simulator, the higher overall TasWater's total revenue requirement might be.

Looking at relative changes to the revenue requirement helps to give an overall picture of customer preferences – a positive change to the revenue requirement means that, on the whole, customers are willing to pay more for this service.

On the other hand, a negative change to the revenue requirement means customers want to

pay less and a reduced level of service (e.g. more interruptions or greater negative impact on the environment). The larger the extent of change, either positive or negative, shows more customers feel this way.

The bill simulator survey results have been weighted to accurately reflect the whole Tasmanian community. There were more customers "very interested in water" responding to the Bill Simulator than in the population more broadly and fewer customers with "close to zero interest in water". The data from the Bill Simulator was therefore re-weighted to better represent the whole community.

Results of the Bill Simulator: A willingness to invest in key aspects of our services

The results from the Bill Simulator showed that Tasmanians have an overall willingness to pay for improved customer and environmental outcomes, as demonstrated in Figure 3.4. As a starting point, we advised customers that average bills would be increasing by $100 per annum (or approximately 7.5 per cent). This was consistent with our understanding of the price increase required to cover movements in external economic factors, outside of our control.

Across the total 1,311 customer sample, re-weighted to be representative, the overall willingness to pay for greater service levels was an additional $13.79 on bills (in addition to the $100 per annum increase). This equated to an additional $14.7 million in revenue requirement over 4 years. Interestingly, even those customers who self-selected as 'don't have enough to meet basic expenses' still were willing to spend an additional $9.80 on their bill to improve water and sewerage outcomes.

The Bill Simulator demonstrated customer strong willingness to pay for:

- fixing leaks and responding to faults, with 78 per cent of respondents willing to invest more and an overall willingness to pay of $6.41 per annum on bills
- providing reliable services, with 74 per cent of respondents willing to invest more and an overall willingness to pay of $6.13 per annum on bills
- protecting our waterways, with 53 per cent of respondents willing to invest more and an overall willingness to pay of $5.33 per annum on bills

The details of each of the responses are provided in Table 3.2.

In addition, the online survey also tested customer preference for greater control of their bills ("billing based on usage") and found a clear preference for more variable charges.

Figure 3.4. Overall willingness to pay, $million revenue requirement

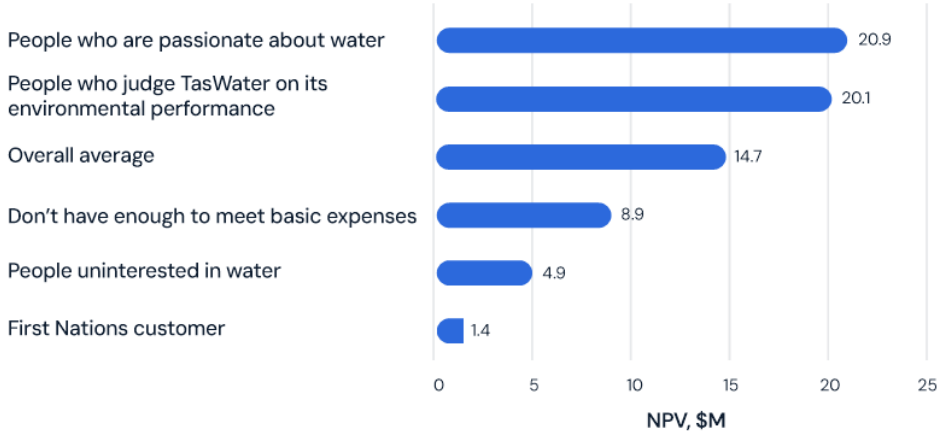


Table 3.2. Summary of Bill Simulator results

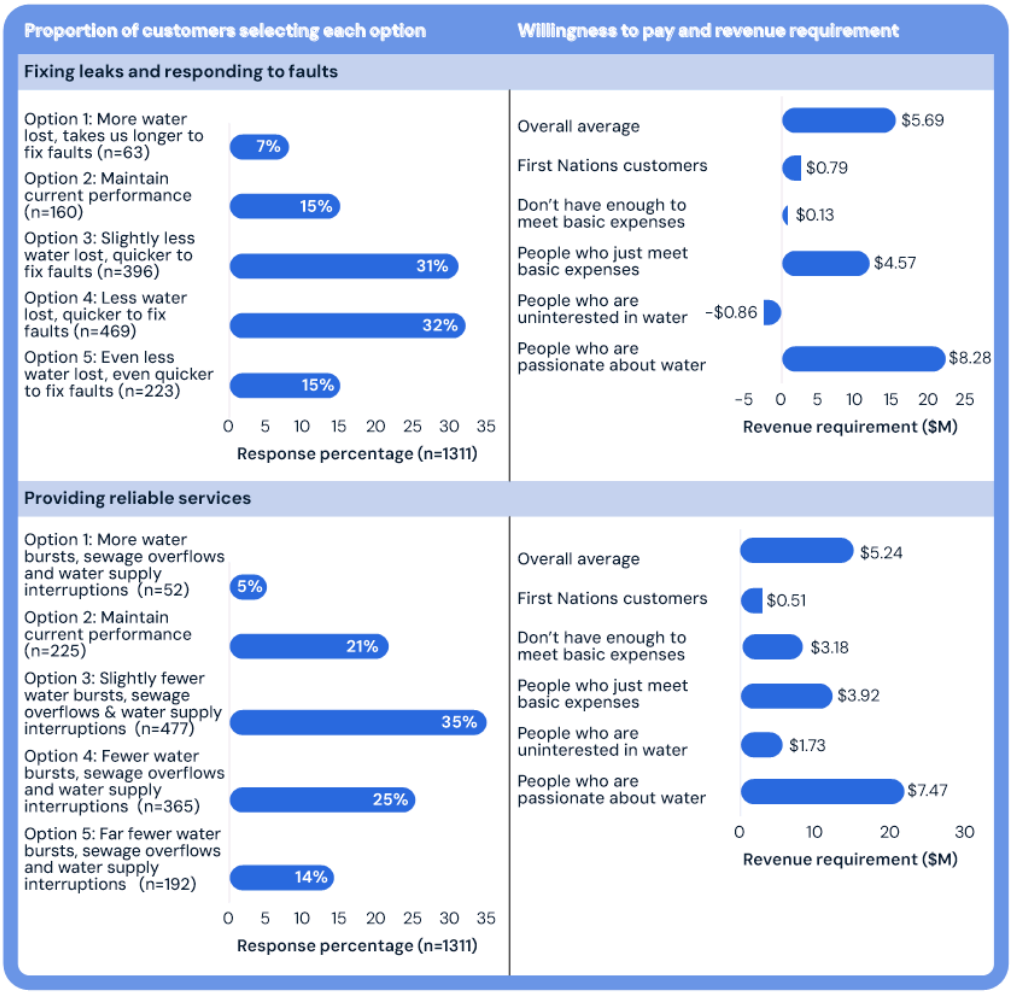


Table 3.2. Summary of Bill Simulator results continued

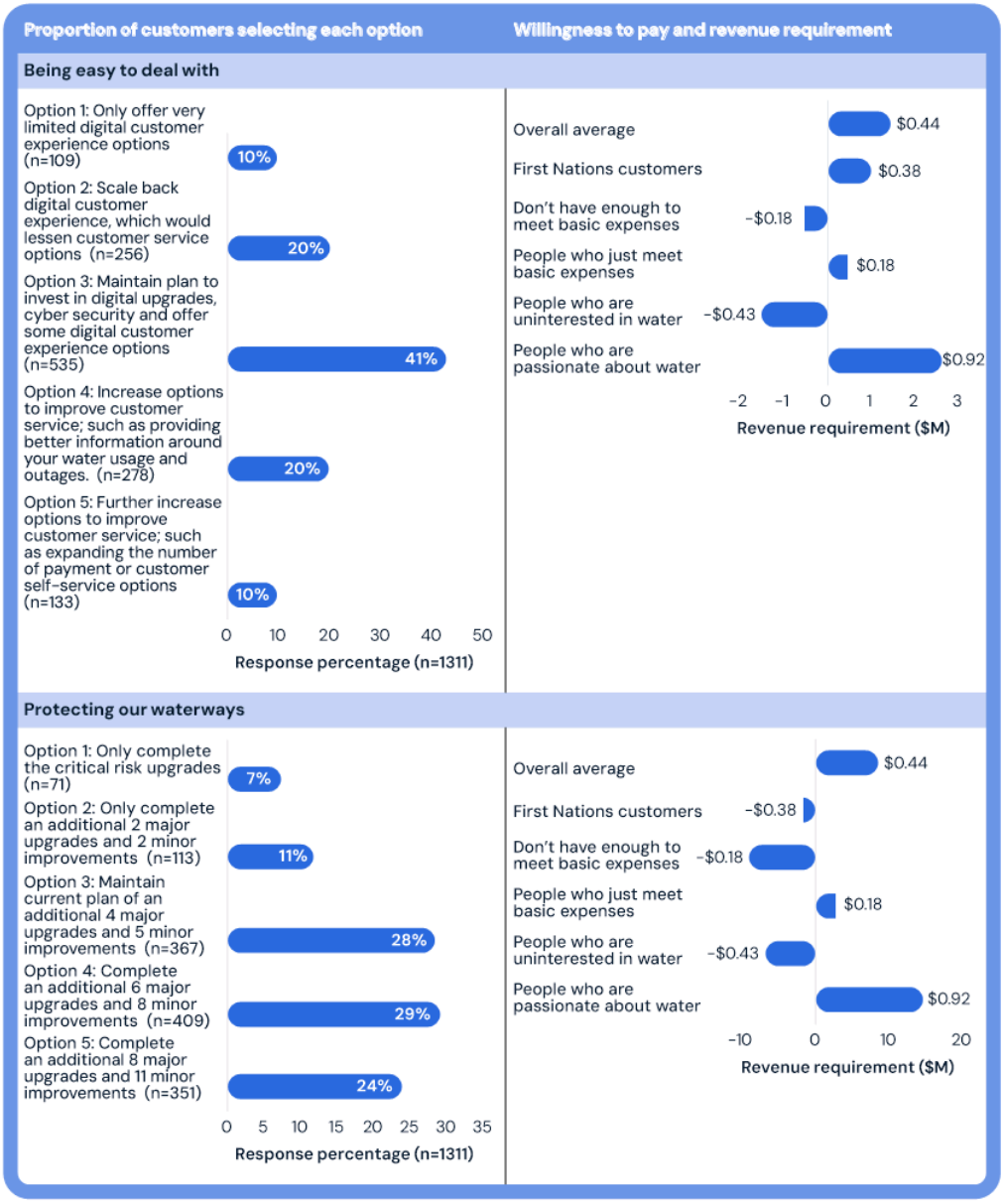
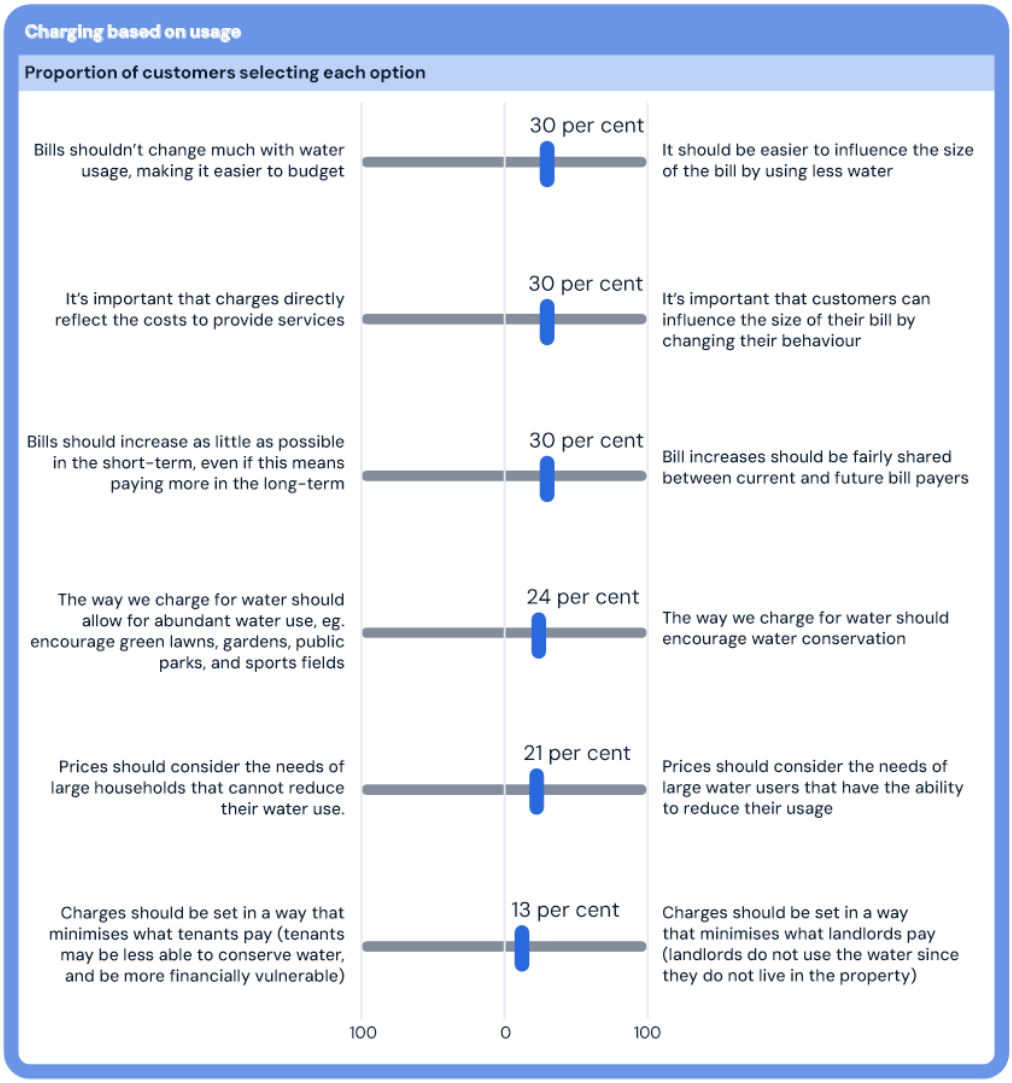


Table 3.3. Summary of Bill Simulator results *continued*



3.4 Our first ever deliberative panel – Water Future Community Advisory Panel

Our 45-member Water Future Community Advisory Panel met for five full days of deliberation in October and November 2024[39].

The panel considered feedback from a range of sources to develop a set of recommendations to inform TasWater's PSP5 Proposal. These sources included our wider engagement program, their own visits to TasWater sites, workshops with TasWater staff, and views from external experts, such as an economist who specialises in tariff reform and a representative from the energy sector.

What is deliberative democracy?

Community advisory panels, also known as deliberative panels or citizens juries, are powerful examples of deliberative, democratic engagement. This means that members of the community affected by a decision are put at the centre of the decision-making process and closer to decision-makers.

Deliberative democracy comes to life through a community advisory panel built around a number of key principles:

- A random sample of people affected by the decision is independently recruited to participate.
- Participants receive detailed, in-depth and balanced information to understand the issues and opportunities related to the decision.
- Participants are given the time and support needed to discuss information, weigh up issues, and agree on recommendations.
- Participants write their own report, presented directly to decision-makers, with high influence over outcomes.

The use of deliberative democracy processes to engage citizens in decision-making is growing worldwide. From Ireland, France, Germany, Belgium, the United Kingdom, the United States and Canada through to Brazil, Taiwan and South Korea, there are numerous examples of citizens assemblies and community panels aiding decision-making. Similarly, many interstate water businesses use this approach to inform their regualted price subsmissions.

Closer to home, section 55 of the *Local Government Act Victoria (2020)* states that local councils must adopt a community engagement policy that includes deliberative engagement processes in developing its plans and Victorian water corporations are increasingly relying on deliberative processes to satisfy the requirements of the Essential Services Commission PREMO regulatory framework[40].

How did the Water Advisory Community Panel work?

All Tasmanian residents had the opportunity to express interest through TasWater's YourSay platform from March to May 2024. More than 3,500 people who registered their initial interest received an invitation and from this customer group, more than 500 people expressed a willingness to participate in the panel process.

TasWater was not involved in the selection of the panel members to maintain the integrity of the deliberative, democratic engagement process.

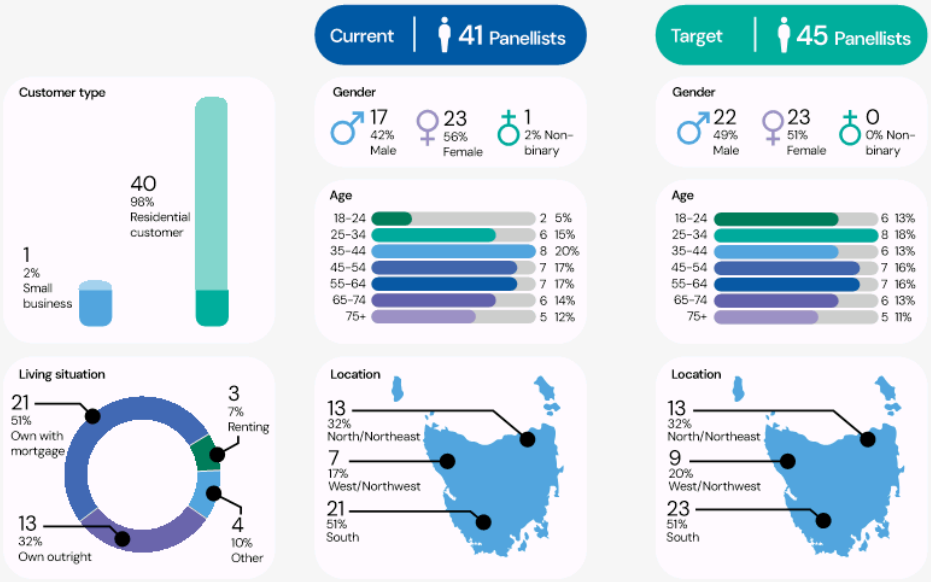
An independent organisation, newDemocracy Foundation, managed the recruitment and selection process against a strict set of demographic criteria, to ensure the panel was demographically representative of the broader Tasmanian community (matched to ABS census data). Panel members were confirmed in partnership with MosaicLab, who independently managed the onboarding of panel members. These panel members represented a broad geographical spread of the Tasmanian community, with panel members based in towns and suburbs from Smithton to South Hobart. The demographics of the Tasmanian community members selected is summarised in Figure 3.5.

Panel members were asked to listen, ask questions and contribute to discussions. Panel members were supported to:

- Have access to specific information and hear from people who are subject matter experts or key stakeholders.

39 While 45 panel members were recruited, 41 of these panel members maintained their attendance for the entire process. This retention rate was higher than we expected.
40 Refer CASE STUDY: WATER WORKS ACROSS 2021 - 23 — MosaicLab

Figure 3.5. Demographics of TasWater's Water Future Community Advisory Panel



- Discuss the information and issues with fellow Panel members and weigh up all of the evidence presented to them.
- Agree on a set of final recommendations and help write a report to be presented to TasWater.

MosaicLab's independent facilitators provided support throughout the process to ensure that it was a genuine and open process where all panellists were able to have their say and feel heard.

Further details of the process are provided in the Community Advisory Panel Process Report prepared by MosaicLab (Supporting information Attachment C.2).

What did we learn from the Water Future Advisory Community Panel?

The Panel was encouraged to set personal preferences and biases aside and consider all information presented to them in order to recommend a balance of price and service that is fair for all Tasmanians. In this way, the Panel drew upon the rich insights provided from our wider engagement phase, as well as views from external experts in their deliberations.

The iterative process led by MosaicLab gave the Panel the opportunity to test its thinking and present its draft recommendations to us. We validated what we heard from the Panel by explaining how we would interpret its recommendations and apply them to our PSP5 proposals, providing a general price increase attributable to its recommendations to the extent possible.

This back-and-forth exchange of ideas helped the Panel to refine its recommendations. Their final report set out seven key recommendations agreed to by at least 80 per cent of the Panel members and was prepared solely by Panel members, with no input or editorial changes by MosaicLab or ourselves.

At the conclusion of the final session on 23 November 2024, the panel handed over its Recommendations Report to the TasWater Chief Executive Officer and a TasWater Board Member (Supporting information Attachment C.5).

Furthermore, the panel also provided its report to the full TasWater Board in February 2025 (Supporting information attachment C.6).

3.5 Our response to the panel's recommendations

Our response to the Water Future Community Advisory Panel recommendation report is provided in Table 3.3.

Table 3.3. Our response to the Water Future Community Advisory Panel recommendation report

Recommendation	TasWater's Response
Protect and improve the environment and water security	
Provide reliable access to quality water amid challenges like climate change (eg drought risk). Consider population growth, conserve resources and reduce water loss from leaks. Ensure that all infrastructure, upgrades and new projects ensure minimal harm.	**We accept this recommendation.** Our PSP5 Proposal has a strong focus on improving environmental and water security outcomes. It also includes investment to meet population growth and reduce leakage in our system. This will see us meet basic regulatory commitments, but the key challenge for us is needing to tackle some of the bigger investments such as rationalising (combining) plants.
Education and incentives for water conservation	
TasWater should develop comprehensive strategies to help customers maximise water efficiency, including educational programs in schools and the broader community. By promoting awareness and practical solutions, these initiatives will empower individuals, households and businesses to conserve water effectively. Additionally, TasWater must collaborate with local, state and federal governments to implement water-saving rebates or subsidy programs, encouraging the adoption of water-efficient devices such as showerheads and tanks. These combined efforts will foster a culture of conservation and ensure sustainable water use across Tasmania.	**We accept this recommendation.** We agree that behaviour change can happen through education and price incentives. We are committed to this outcome and we are already taking action, including our current water conservation campaign and our schools water literacy program. We will increase our efforts and investment in water conservation in PSP5. We propose an additional $400,000 over the PSP5 period to fund a water conservation program, building our knowledge of customer water use behaviour and making available water efficient devices and advice to support customers using less water. We will work with government to explore rebates for water efficient appliances and other support for customers to save water use.
Increase awareness of the TasWater Assist program	
Increase awareness of the TasWater Assist Program and the flexible payment options available. Provide support for those impacted by pricing changes to ensure that all Tasmanians have reliable access to basic water needs for drinking and hygiene.	**We accept this recommendation.** We have already begun an increased awareness campaign for TasWater Assist, in response to this recommendation. Our PSP5 Proposal further increases our investment in education and support for TasWater Assist and other vulnerable customers, particularly as pricing based on usage is increased.
Upgrade of metering	
We recommend that TasWater install digital smart meters across the network, as a high priority, where net benefit can be demonstrated i.e. where the trial has proved successful for TasWater and customers. On that basis, we should accelerate pilots and broaden rollouts. Taswater should consider optional early customer opt in.	**We accept this recommendation.** We will increase our investment in renewing and improving our meter fleet. We recognise effective metering as essential to delivering our services to customers. We will run a 10,000 digital meter pilot in PSP5, to inform the most cost-effective way to roll-out digital metering to the remainder of the meter fleet.

Recommendation	TasWater's Response
Remodel the pricing structure	
We recommend that TasWater increase the variable component of the pricing structure for water and sewerage and in turn, reduce the fixed cost component so it is more reflective of a usage-based system. We recommend that TasWater provide comprehensive information on these changes including payment options, weekly/fortnightly BPay payments or recurring direct debits.	**We accept this recommendation.** We intend to propose an increase in the proportion of customer bills that is based on usage, with the proposal still undergoing finalisation. We acknowledge that while many will benefit and pay less, any price reform will impact on customers differently and we commit to support all customers with price changes.
Proactive infrastructure management and maintenance	
We recommend that TasWater focus on future-proofing and consolidating infrastructure by addressing critical needs first, with ongoing proactive/ preventative maintenance, rationalising infrastructure based on cost benefit to customers prioritised to meet future demands.	**We accept this recommendation.** Our capital plan is being developed to address the previous under-investment in infrastructure. This will see us prioritise renewal investment that improves our networks to reduce leakage, increase our environmental compliance and focus on water security for the future.
Supply water and sewage services to unserviced communities	
TasWater to review: • the adequacy and location of sewerage filling stations in order to ensure they are close to communities that need them • their arrangements with cartage contractors to ensure a reasonable and equitable cost of supply to unserviced communities • demand for expanding reticulated water and sewerage services in unserviced communities through proactive engagement	**We accept this recommendation.** We will review our arrangements for remote and regional communities that are currently unserviced by TasWater. We note that we do currently have a policy for introducing new and extending services to regional areas, which relies on the principle of recovering costs from the communities that benefit from the service introduction.

3.6 Additional engagement on our proposed price path

During the Water Future Community Advisory Panel process, panel members were provided with estimates of what our proposed price could be, based on information available at that time. They were also given an indication of the cost and price impact of their recommendation as they were being developed. The panel did not provide endorsement of the proposed price increase contained in this PSP5 Proposal.

In May 2025, we reconvened the Water Future Community Advisory Panel to test the potential price path options for PSP5 and PSP6. This engagement included the following options:

- A cost-reflective price path of 11.2 per cent (including inflation) in PSP5 and a 0 per cent per annum increase in PSP6
- A lower price path of 6.1 per cent, plus inflation of 2.7 per cent per annum (8.8 per cent per annum) in PSP5 and 5.4 per cent in PSP6.
- An option in between.

The results of the panel engagement were mixed. Some panel members saw the benefit of a larger increase in PSP5, offering a view that it was better to take action now "rip the band aid off", resulting in lower bills in 2034. Others saw benefits for keeping the PSP5 proposed increase lower, viewing it as a prudent 'middle ground'. The results of this engagement are provided in Appendix C. Customer Engagement.

3.7 How what we heard aligns with our Strategy

We observed a high degree of consistency in the feedback we received from both our broad and deliberative engagement activities with customers and community.

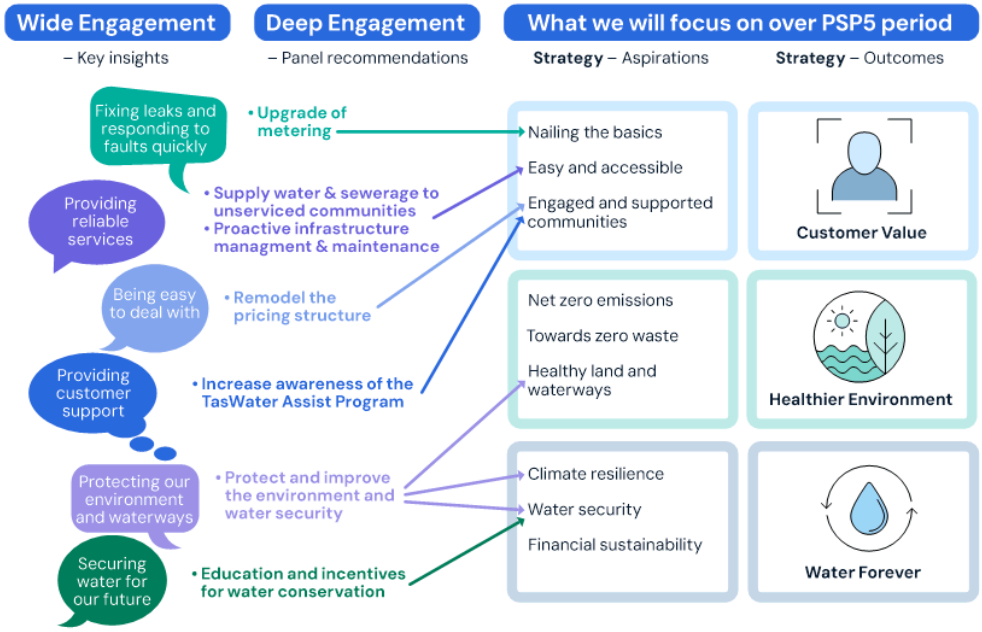
The key insights from the 3,500+ members of the community we reached during our Shaping Tasmania's Water Future Together campaign aligned with the detailed recommendations of our Water Future Community Advisory Panel.

In turn, this feedback also aligned with the future direction we have set for our organisation, in our Strategy. Through both our broad and deliberative engagement activities, we heard that customers support us taking decisive action on all three aspirations we have set for ourselves to deliver Customer Value. Customers also want to see us make progress on key aspirations related to Healthier Environment and Water Forever.

Our PSP5 Proposal therefore centres on progressing six aspirations and delivering three outcomes from our Strategy over the next four years, as shown in Figure 3.6.

However, in order to do this, we must also progress our aspirations to be Better Together. It is only by helping our people to unlock their full potential and partnering with our stakeholders in a meaningful way will we be successful in delivering what our customers want.

Figure 3.6. How our PSP5 proposal aligns with our strategy



Appendix for *Chapter 3 Our collaborative approach with customers*

- Appendix C: Customer Engagement

Including the following:

- Attachment C.1 – TasWater – Shaping Tasmania's water future: Strategic Engagement Plan
- Attachment C.2 – Water Future Community Advisory Panel: Mosaic process report
- Attachment C.3 – Water Future Community Advisory Panel: Handbook
- Attachment C.4 – Water Future Community Advisory Panel: Background Report
- Attachment C.5 – Water Future Community Advisory Panel: Community Engagement Report
- Attachment C.6 – Water Future Community Advisory Panel: Recommendations Report
- Attachment C.7 – Water Future Community Advisory Panel: Recall Day 1 – What was said report
- Attachment C.8 – Water Future Community Advisory Panel: Recall Day 2 – Revenue deferral
- Attachment C.9 – Tasmanian Aboriginal Community Consultation Workshop Report

4. Our regulatory commitments

We are striving to achieve compliance

- As a provider of essential services, we must comply with a range of legislative and regulatory obligations that govern the quality of our services and operations.
- These are important reflections of our community's expectations and our compliance is an integral part of maintaining our 'social licence' with Tasmanians.
- We inherited a $2 billion asset base with significant gaps in performance and compliance with water, environment and dam safety requirements, due to decades of under-investment that drove reform of the water industry and resulted in TasWater's formation.
- Our primary focus for the first 12 years of TasWater's operations was to improve drinking water compliance. We have successfully achieved this, recording our sixth year of 100 per cent of microbiological compliance.
- Sewage treatment compliance remains a significant gap in our performance, and now our increased focus. Currently, 23 per cent (or 18) Level 2 sewage treatment plants are classified high risk to their environments. Only 19 per cent of our sewage treatment plants are fully compliant with their Environmental Protection Notices (EPNs).
- We have a large portfolio of dams. As we identify risks with these dams, we must make further investments to ensure our dams are safe, protecting life, with upgrades planned for Ridgeway Dam (Hobart) and Pet Dam (Burnie) in PSP5.
- We have worked closely with technical regulators, DoH, EPA, NRE to develop and align priorities in our investment plans. Our proposal makes the necessary investments in PSP5. However, it will require multiple PSP periods and consistent focus and investment to 'close the gap', with more than half of our proposed capital expenditure program driven by our compliance requirements.

This section of our submission sets out:

4.1 Our regulatory framework reflects community expectations
4.2 Our inherited assets were largely non-compliant because of historical under-investment
4.3 Our journey to drinking water quality compliance
4.4 Our key remaining challenge is sewage environmental compliance
4.5 We also face a challenge to maintain dam safety
4.6 How we propose to overcome our remaining challenges
4.7 How we will meet our regulators' requirements in PSP5

4.1 Our regulatory framework reflects community expectations

Owing to the essential nature of our water and sewerage services, we are subject to a complex framework of legislation and regulation. This governs the quality of the products and services we provide, as well as ensures our customers and employees are appropriately protected as we operate our business. Figure 4.1 provides the legislation that applies to us.

Independent regulators oversee our compliance with key legislation and regulations due to the technical nature of these obligations and their impact on customers. These regulators include:

- The Tasmanian Economic Regulator, who oversees regulated pricing and customer service standards.
- The EPA, which regulates environmental matters such as sewage treatment plant licensing and effluent and recycled water compliance.
- The Director of Public Health and DoH, which regulates drinking water quality.
- The Dam Safety Regulator and NRE, which regulates water allocation, water licensing and dam safety[41].

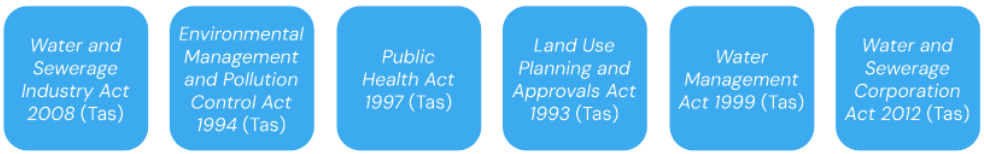
The legislative and regulatory framework we operate within is subject to evolution by the State Government over time, so that it remains contemporary and adequately reflects the Tasmanian community's expectations for the quality of the services we provide.

In this way, the community can trust that the drinking water they receive and the sewage effluent that is discharged to the environment on their behalf is fit for purpose, of appropriate quality, and that we are meeting all of our other obligations to provide quality services. TasWater and its regulators report on our performance against obligations, making this transparent and upholding our 'social licence' with Tasmanians[42].

In addition to the key legislative and regulatory framework governing water and sewerage services, there are also a number of other legislative, regulatory and policy obligations that drive our operations and investments. We must:

- Ensure the safety of our employees under workplace health and safety legislation.
- Meet the evolving requirements of the cyber security legislation.
- Comply with the *Security of Critical Infrastructure Act 2018* (SOCI Act) to ensure we can protect our assets from external threats.
- Comply with the Privacy Act and the related obligations overseen by the Office of the Australian Information Commissioner.
- Support the State Government and local councils' development and growth-related policies and forecasts for development.
- Comply, and work closely, with the Ombudsman Tasmania to resolve customer issues and complaints that we are unable to resolve directly with the customer.

Figure 4.1. Key legislation governing water and sewerage services



41 Previously known as the Department of Primary Industries, Parks, Water and Environment.
42 Australian Institute of Company Directors defines 'Social licence' as the ongoing acceptance and approval of an organisation's activities by its stakeholders and the general public.

4.2 Our inherited assets were largely non-compliant because of historical under-investment

When TasWater was formed in 2013, we inherited a $2 billion asset base with a significant gap between current performance and full compliance for water, environment and dam safety requirements.

In particular, there were 24 permanent public health alerts (boil water or do not consume) within drinking water systems and widespread non-compliance of sewage treatment plants with their environmental permits. The TER's 2012 Water and Sewerage Price Determination Investigation – Final Report (Price and Service Plan 1), made the fair assessment that the issues in performance had been allowed to develop over decades and would not be rectified for some time[43].

The widespread lack of adequate investment in water and sewerage assets had been observed as far back as the early 1990s[44]. By the time the Tasmanian Government assessed its ability to sign up to the National Water Initiative in 2005, it was clear that there was a large investment gap with respect to compliance. In the same year, Engineers Australia undertook a nationwide assessment of infrastructure and ranked Tasmania as having the worst-performing water and sewer infrastructure in Australia[45].

The Ministerial Water and Sewerage Taskforce that led Tasmania's water and sewerage structural reform in the 2000s issued clear findings about the lack of centralised planning, lack of economies of scale and limited council financial capacity resulting in significant under-investment in infrastructure and poor outcomes for customers. By the time the reform was largely implemented, a further parliamentary review in 2012 confirmed that *"the task of bringing water and sewerage assets up to a standard that meets not only pre-existing licence requirements but current contemporary standards as well, will be a significant challenge both environmentally and financially"*[46].

While we have made significant progress in the first 12 years of TasWater, it is imperative that PSP5 does not ignore the performance gaps that remain. It's crucial that we invest in our water and sewerage systems to meet the needs of customers now and the future.

4.3 Our journey to drinking water quality compliance

What was the extent of our challenge?

From the creation of TasWater in 2013, we have been striving to close our compliance gap. Our initial focus was on drinking water quality.

We currently operate 59 water systems, which are supplied by 73 water catchments[47], to provide drinking water to more than 470,000 Tasmanians and Tasmanian businesses. In addition, we serve a further 1.3 million tourists that come to our state annually[48]. Figure 4.2 shows the geographical distribution of our water treatment plants across the state.

43 Tasmanian Economic Regulator 2012 Water and Sewerage Price Determination Investigation – Final Report (pages IX-XI).
44 University of Tasmania: The history of Local Government in Tasmania, Prepared for the Future of Local Government Review by the UTAS Tasmanian Policy Exchange, March 2022.
45 Tasmanian Government Ministerial Water and Sewerage Taskforce Discussion Paper: Reform of Tasmania's water and sewerage sector, December 2006, page 15.
46 The 2012 House of Assembly Select Committee into the Tasmanian Water and Sewerage Corporations.
47 As at March 2025.
48 Tasmanian Government, Tasmanian Tourism Snapshot, figures for the year-ending September 2024.

Figure 4.2. Map of water treatment plants across Tasmania

Drinking water quality compliance is primarily governed by the *Public Health Act 1997* and the Australian Drinking Water Guidelines 2022, as shown in Figure 4.3. We are required to undertake comprehensive samples of drinking water (both in number and frequency) to demonstrate our compliance with these requirements and report to the Director of Public Health if there is, or is likely to be, any threat to public health. The Director of Public Health will issue a warning to protect public health if sampling suggests there is an increased risk associated with the use of the water supply. We have implemented Health-Based Targets with the endorsement of the Director of Public Health, which is part of a broader framework for assessing and managing water quality risks, which is outlined further below.

In the early years following TasWater's formation, our sampling demonstrated widespread and well publicised non-compliance with drinking water obligations, with a number of drinking water systems presenting risks to public health. The resultant 28 permanent public health alerts (boil water or do not consume) for drinking water quality disproportionally impacted our regional communities as shown in Figure 4.4.

How did we overcome this challenge?

Our response was the 24 Glasses Program, which aimed to deliver treated drinking water to all Tasmanian towns without compliant drinking water. By the end of the program, we had invested more than $100 million in 28 drinking water systems, along with additional investment in treatment processes across the state.

By August 2018, we were incredibly proud to achieve the removal of all permanent public health alerts and boil water alerts across Tasmania (a total of 28 removed). As at June 2024, we have had our sixth consecutive year of reporting 100 per cent microbiological compliance for our drinking water, across more than 280,000 compliance tests annually.

In addition to the 24 Glasses Program, we introduced fluoridation processes in small water treatment plants where they didn't already exist. Fluoridated water is now supplied to 99.6 per cent of the Tasmanian population that receives our drinking water. Extra treatment barriers, such as UV disinfection, were also introduced to drinking water treatment plants in regional towns. Our final round of investment in regional town drinking water quality will be delivered in the PSP5 period[49]. Seven water treatment plants will be upgraded with UV treatment in the PSP5 period, being St Marys, Bothwell, Tullah, Oatlands, Yolla and Dover.

A major milestone was also achieved with the delivery of the upgraded Bryn Estyn Water Treatment plant in 2023, supplying more than 60 per cent of Hobart's drinking water. The $227.2 million plant delivers best-practice water treatment and increases our capacity to serve greater Hobart for the next 50 years.

Figure 4.3. Legislation and regulatory instruments governing drinking water quality

49 You can find out more about our investment in regional town drinking water supply here.

Figure 4.4. Public health alerts in 2010

Despite safe drinking water, targeted investments are still required

Although our drinking water treatment plants are 100 per cent microbiologically compliant, we recognise there is always a risk of pathogens being present in the raw water we treat. The Australian Drinking Water Guidelines (ADWG) were updated in September 2022 to include Health Based Targets to address this risk. Health Based Targets provide guidance on the necessary layers of treatment required, depending on the risks present in the water catchment risk. The method uses a log removal value (LRV) scale to measure the pathogen reduction required. It is important to reiterate that all of our drinking water meets very high standards and is compliant with ADWG, the risks outlined in our Health Based Targets represent the need for additional barriers for safety (for example, an additional water treatment process such as UV disinfection).

Water treatment plants where treatment processes do not meet the Health Based Targets LRV requirement, are said to have a 'LRV shortfall'. As a result of our many small water treatment plants, we still have a number of treatment plants that have a LRV shortfall, as summarised in Figure 4.5[50]. At the end of PSP4, we will have seven high risk water treatment plants to rectify in PSP5.

Our plan to address the Health Based Target LRV shortfall is part of our commitment to the Director of Public Health for PSP5. Once we identify drinking water risks, we must reduce water treatment plants with extreme risks (LRV deficit ≥4) within three years, high risks (LRV deficit 3) within five years, medium risks (LRV deficit 2) within ten years and low risks (LRV deficit ≤2) at the next major upgrade of the relevant water treatment plant. Our proposed capital plan has been aligned to this commitment.

The water treatment plants that we will upgrade in PSP5 are provided in Chapter 6 Our proposed outcomes and service standards.

50 The number of water treatment plants included in this graph is 62, which includes our 59 water treatment plants and additional systems with dosing stations.

Case Study: Bryn Estyn Water Treatment Plant upgrade

Hobart's water in safe hands

The Bryn Estyn Water Treatment Plant is Greater Hobart's primary source of drinking water, providing an average 60 per cent of its water supply needs annually. Bryn Estyn was originally constructed in 1962, with capacity augmentations completed in 1972 and 1992.

Over the last two years, we completed upgrades and expansion of the plant to ensure it can continue to provide high-quality drinking water and meet projected demand in Greater Hobart for years to come.

The upgrade and expansion:

- provides high-quality drinking water for Greater Hobart
- enables the reliable supply of 160 million litres of water per day
- provides multi-barrier treatment processes to ensure drinking water risks are mitigated now and into the future
- improves the operational efficiency by increasing capacity and modernising infrastructure

The project was officially opened in September 2023.

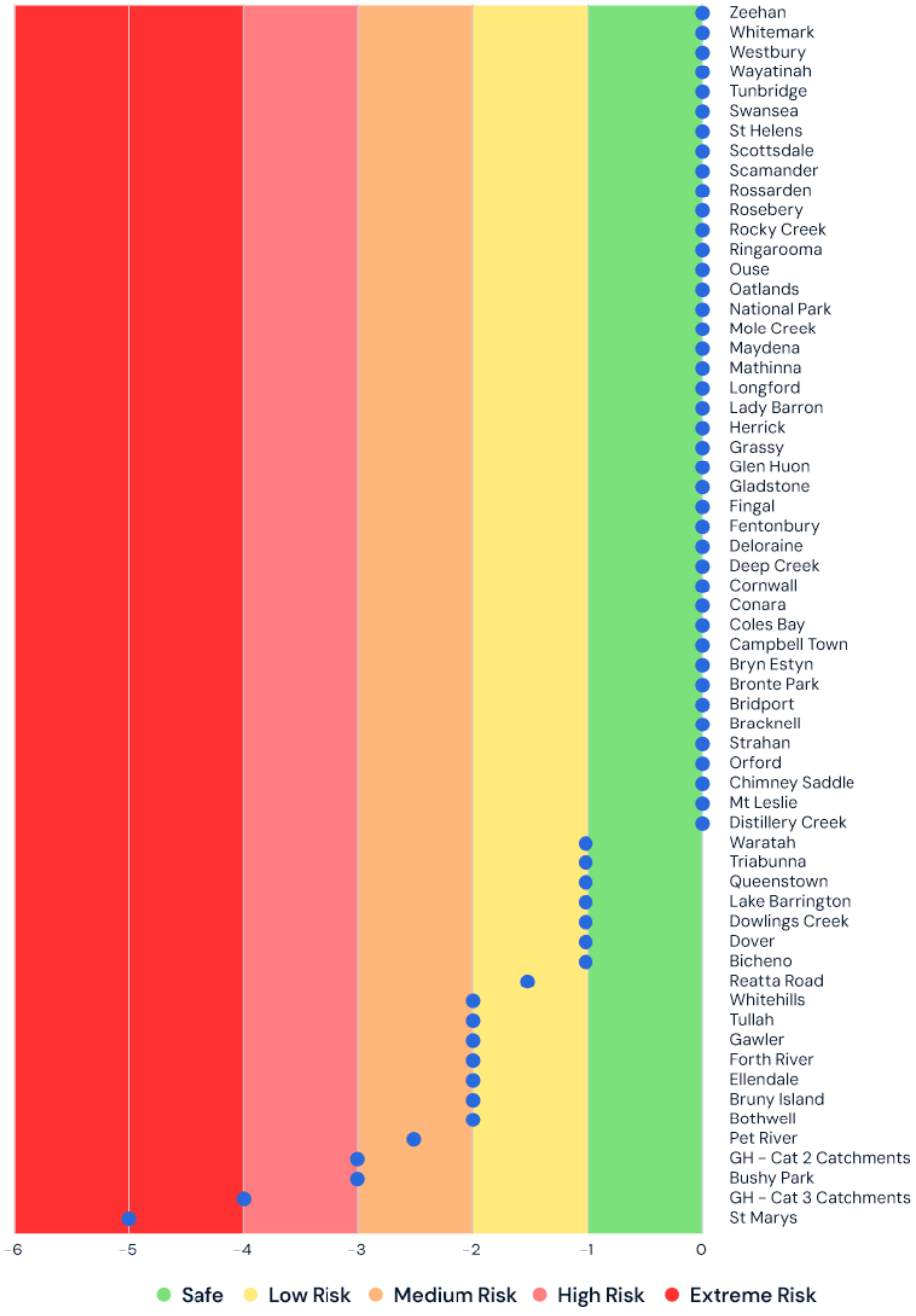
Bryn Estyn supplies water to eight Local Government Areas including:

- Hobart
- Glenorchy
- Kingborough
- Brighton
- Derwent Valley
- Southern Midlands
- Sorell
- Clarence

Fast Facts:

- Bryn Estyn takes water from the River Derwent upstream of New Norfolk
- The water treatment plant provides multi-barrier treatment to ensure safe and pleasant-tasting water
- Sediment is removed through a clarification and flocculation process
- Ozone oxidises the organic material and the Biological Activated Carbon Filters removes particulate matter through adsorption
- UV treatment and chlorination provide disinfection and the final water is fluoridated

Figure 4.5. Water treatment plants with a LRV shortfall



4.4 Our key remaining challenge is sewage environmental compliance

Sewage treatment and disposal is regulated under a range of legislation depending on the size and context of the plant. We currently own and operate 110 sewage treatment plants:

- 33 Level 1 sewage treatment plants, which are designed to treat <100 kilolitres (kL) a day and are regulated by local councils.
- 77 Level 2 sewage treatment plants, which are designed to treat >100kL per day and are regulated by the EPA.

Figure 4.6 shows the geographical distribution of our sewage treatment plants across the state and Figure 4.7 shows the legislation that applies to us.

Figure 4.6. Map of sewage treatment plants across Tasmania

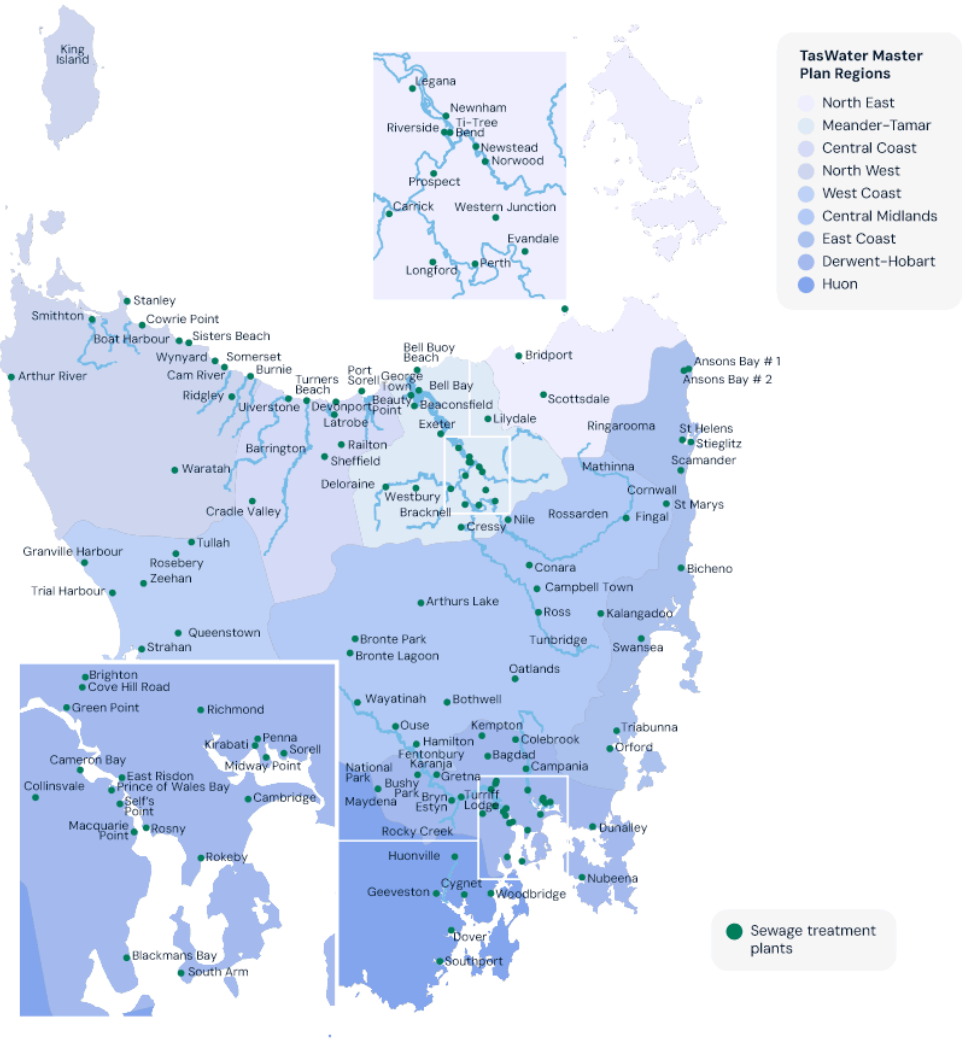


Figure 4.7. Legislation and regulatory instruments governing sewage treatment, discharge and reuse

Any of our Level 2 sewage treatment plants with outfalls to local waterways must comply with EPNs or permits issued by the EPA, which set out operating, monitoring, reporting and planning requirements for that site. Most EPNs set quality limits for treated sewage discharge based on the type of treatment process, rather than the risk posed to the local waterway.

Only 15 per cent of our Level 2 sewage treatment plants were compliant at the time of TasWater's formation, as shown in Figure 4.8[51]. We have marginally improved this over time to 26 per cent as at June 2024. However, given the substantial program of work we have undertaken to improve our drinking water compliance, we have been unable to make the investments necessary to substantively improve our sewage environmental compliance. We prioritised drinking water over sewage treatment, to limit customer bill impact, but it is now critical that we invest in our sewage treatment plants and meet their EPNs.

Of our Level 1 sewage treatment plants, only three per cent were compliant against Emission Limit Guidelines in 2023-24, as outlined in Figure 4.9. These sewage treatment plants are regulated by local councils.

This poor performance was confirmed in the TER's annual State of the Industry Reports (refer 2013-14 and later years) and in the Tasmanian Audit Office's 2017 assessment of water reforms in Tasmania, which noted that Tasmanians had not yet benefitted from any improvement in our sewage environmental compliance and that TasWater must commence a structured approach to planning rationalisation of its assets. This process has begun with the upgrade to the Selfs Point Sewage Treatment Plant and now receives greater focus in PSP5.

51 This is based on overall proportion of compliance with the EPN discharge limits and does not take into consideration the size of flow or risk to receiving environment. Also, the majority of EPNs only contain 'interim' discharge limits. Today, we focus on environmental risk and less on technical compliance.

Figure 4.8. Percentage of compliant Level 2 sewage treatment plants 2014–15 to 2023–24

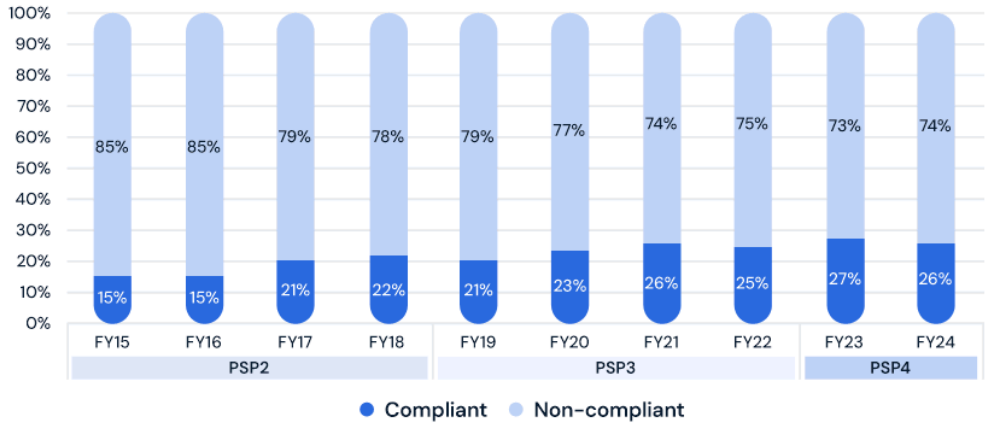
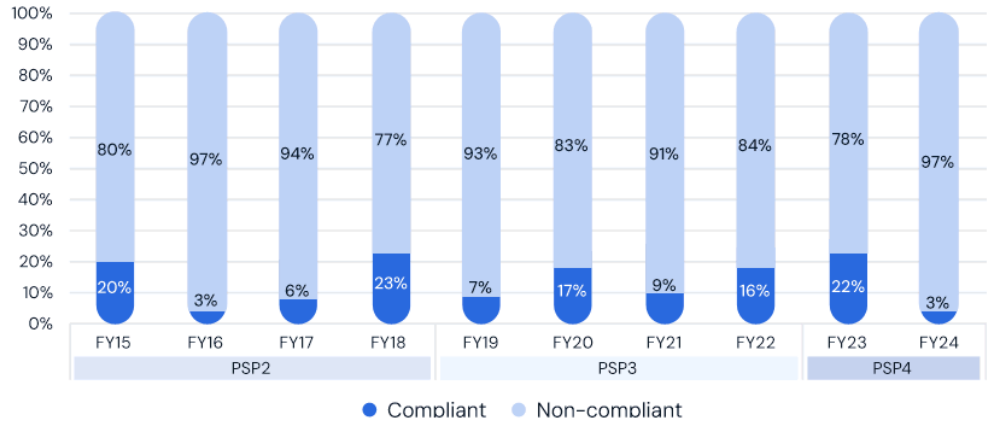


Figure 4.9. Percentage of compliant Level 1 sewage treatment plants 2014–15 to 2023–24



Our extensive ambient monitoring program gives us an understanding of the impacts we have on local waterways. We use this monitoring data in Environmental Risk Assessments (ERAs) for waterway discharges, which assess our current performance against key discharge risks aligned with recognised ecosystem values. This allows us to understand the true risk to the environment, rather than simply EPN compliance.

Sites which are classified as "high risk" via ERAs become a high priority for investigation and investment in sewage quality improvement projects. These sites generally discharge all treated effluent flows to local waterways, with discharge impacts including elevated nutrients, pathogens or other parameters such as chlorine or ammonia.

Out of our 77 Level 2 sewage treatment plants, 18 (or 23 per cent) are currently classified "high risk"[52]. This is outlined in Table 4.1. A further four of our Level 1 sewage treatment plants are also classified as "high risk", outlined in Table 4.2.

Sites which are classified as "medium risk" via ERAs generally have improved treatment processes or partially discharge treated effluent to recycled water schemes, meaning lower volumes of treated effluent enter local waterways. These sites are considered medium priority for subsequent investment and improvement.

42 Level 2 sewage treatment plants (or 55 per cent) are currently classified "medium risk". We commit to maintaining our current performance for our medium and low risk Level 2 sewage treatment plants, and our Level 1 sewage treatment plants, while investigating opportunities to improve performance at these plants.

During 2023-24, 23 STPs were classified as full reuse, diverting more than 95 per cent of their total treated sewage flows to land, either through recycled water schemes or absorption trenches. In total we diverted 5,495 megalitres (ML) of treated sewage away from our local waterways further reducing pollutants like nitrogen and phosphorous. This is equivalent to 2,337 Olympic swimming pools or 3.6 Melbourne Cricket Grounds. These opportunities allow us to beneficially reuse sewage effluent, improving environmental outcomes while potentially reducing or deferring the need for further investment at a sewage treatment plant.

The sewage treatment plants that are subject to investment in PSP5, consistent with our approved Wastewater Risk Management Plan, are outlined in *Chapter 6. Our proposed outcomes and service standards* and in our proposed capital expenditure forecast.

52 As at end June 2024.

Table 4.1. Summary of Level 2 sewage treatment plant limit compliance and discharge risk

Site	Key Wastewater Parameters							Discharge Risk
	Ammonia	Biochemical Oxygen Demand	Chlorine	E. coli	Total Suspended Solids	Nitrogen	Phosphorus	
Beaconsfield STP	🟢	🔴	- -	🟡	🔴	🟡	🟢	Low
Beauty Point STP	🔴	🟡	- -	🟡	🟡	🔴	🟢	Medium
Bicheno STP	🟢	🟡	- -	🟡	🟡	🟡	🟡	High
Blackmans Bay STP	🟢	🟢	- -	🟢	🟢	🟢	🟢	Low
Boat Harbour STP	🟡	🟢	- -	🟡	🟢	🟢	🟢	Low
Bothwell STP	🟢	🟡	- -	🟢	🟡	🟢	🟡	Medium
Bridport STP	🟡	🔴	🔴	🟡	🔴	🟠	🟠	Medium
Brighton STP	🟢	🔴	- -	🟡	🟠	🔴	🔴	Low
Burnie STP	🟡	🟡	- -	🟡	🟢	🟡	🟡	Medium
Cambridge STP	🟢	🟢	- -	🟢	🟢	🟡	🟡	Medium
Cameron Bay STP	🟢	🟡	🟡	🟢	🟢	🟢	🟢	High
Campania STP	🟢	🔴	- -	🔴	🔴	🔴	🔴	Medium
Campbell Town STP	🟢	🟡	- -	🟠	🟠	🟢	🟢	Low
Carrick STP	🟡	🟢	- -	🟡	🟢	🟡	🟡	Medium
Cradle Valley STP	🟢	🟢	- -	🟢	🟢	🟢	🟢	Medium
Cressy STP	🟠	🟠	- -	🔴	🔴	🔴	🟢	Low
Currie STP	🟢	🟡	- -	🔴	🟡	🟢	🟡	Medium
Cygnet STP	🟡	🟢	🟠	🟢	🟢	🟢	🟢	Medium
Deloraine STP	🟡	🟠	- -	🟡	🔴	🟡	🟢	Medium
Dover STP	🟡	🟢	🟠	🟢	🟢	🟢	🟢	Medium
Evandale STP	🟢	🔴	- -	🔴	🔴	🟡	🟠	Medium
Exeter STP	🟢	🔴	- -	🔴	🟠	🟡	🟢	Medium
Fingal STP	🟡	🟢	🔴	🟡	🔴	🟢	🟢	Medium
Geeveston STP	🟢	🟠	🟡	🟡	🟡	🟡	🟡	High
George Town STP	🟢	🟡	- -	🟡	🟡	🟢	🟢	Low

Table key 🟢 Compliant >95 per cent 🟡 Minor non-compliance 75-<95 per cent
🟠 Substaintially non-compliant 50-<75 per cent 🔴 Non-compliant >50 per cent
- - Chlorine disinfection not used NA - No outfall to waterways

Site	Key Wastewater Parameters							Discharge Risk
	Ammonia	Biochemical Oxygen Demand	Chlorine	E. coli	Total Suspended Solids	Nitrogen	Phosphorus	
Green Point STP	🔴	🟠	🟢	🔴	🟢	🔴	🟢	Medium
Hoblers Bridge STP	🟢	🟢	🟢	🟢	🟢	🟢	🟢	High
Kempton STP	🟢	🟠	--	🟡	🟠	🟢	🟡	Medium
Latrobe STP	🟢	🟠	🟢	🔴	🟢	🟢	🟢	Medium
Legana STP	🟡	🔴	--	🟠	🔴	🔴	🟢	Medium
Lilydale STP	🟢	🟡	--	🟠	🟡	🟢	🟢	Medium
Longford STP	🟢	🟢	--	🟢	🟢	🟢	🟡	Medium
Macquarie Point STP	🟢	🟡	🟡	🟢	🟢	🔴	🟡	High
Midway Point STP	🟢	🟠	🟠	🟢	🔴	🟢	🟢	Medium
Newnham STP	🔴	🔴	🟢	🟡	🟢	🔴	🟢	Medium
Norwood STP	🟢	🟢	🟡	🟡	🟢	🟢	🟢	High
Oatlands STP	🟢	🟡	--	🟡	🟠	🟢	🟢	Medium
Orford STP	🟢	🔴	--	🟡	🟠	🟢	🟢	Low
Pardoe STP	🟢	🟡	--	🟢	🟢	🟢	🟢	Medium
Penna RWS	🟢	🟢	--	🟢	🟢	🟢	🟢	NA
Perth STP	🟠	🔴	--	🔴	🟠	🔴	🟠	Medium
Port Sorell STP	🟠	🔴	--	🟢	🟠	🟠	🟡	High
Prince of Wales STP	🟢	🟡	🟠	🟡	🟢	🟢	🟢	High
Prospect Vale STP	🟢	🟡	--	🔴	🟡	🟢	🟢	High
Queenstown STP	🟢	🔴	--	🟢	🟠	🟢	🟢	Low
Railton STP	🟢	🟢	--	🟡	🟡	🟢	🟢	Medium
Ranelagh STP	🟢	🟡	🟠	🟡	🟡	🟢	🟡	Medium
Richmond STP	🟢	🟢	--	🟢	🟢	🟢	🟢	NA
Ridgley STP	🟢	🟢	--	🟡	🟡	🟢	🟢	Medium
Risdon Vale STP	🟢	🟡	🟢	🟡	🟢	🟠	🟢	Medium
Riverside STP	🟢	🟠	🟢	🟠	🟢	🟢	🟢	Medium
Rokeby STP	🟢	🟢	--	🟢	🟢	🟢	🟡	Low
Roseberry STP	🟢	🟢	--	🟡	🟡	🟢	🟢	Medium
Rosny STP	🔴	🟢	--	--	🟢	🟢	🟢	Medium

Site	Key Wastewater Parameters							Discharge Risk
	Ammonia	Biochemical Oxygen Demand	Chlorine	E. coli	Total Suspended Solids	Nitrogen	Phosphorus	
Scamander STP	●	●	- -	●	●	●	●	NA
Scottsdale STP	●	●	●	●	●	●	●	High
Selfs Point STP	●	●	●	●	●	●	●	Low
Sheffield STP	●	●	- -	●	●	●	●	High
Sisters Beach STP	●	●	●	●	●	●	●	Medium
Smithton (Pelican Point) STP	●	●	●	●	●	●	●	High
Somerset STP	●	●	- -	●	●	●	●	Medium
Sorell STP	●	●	●	●	●	●	●	Medium
St Helens STP	●	●	●	●	●	●	●	Medium
St Marys STP	●	●	- -	●	●	●	●	Low
Stanley RWS	●	●	- -	●	●	●	●	Medium
Strahan STP	●	●	- -	●	●	●	●	Low
Steiglitz STP	●	●	- -	●	●	●	●	NA
Swansea STP	●	●	- -	●	●	●	●	Medium
Ti-Tree Bend STP	●	●	●	●	●	●	●	High
Triabunna STP	●	●	- -	●	●	●	●	High
Tullah STP	●	●	- -	●	●	●	●	Medium
Turners Beach STP	●	●	- -	●	●	●	●	High
Turriff Lodge STP	●	●	●	●	●	●	●	Medium
Ulverstone STP	●	●	- -	●	●	●	●	High
Westbury STP	●	●	- -	●	●	●	●	High
Wynyard STP	●	●	- -	●	●	●	●	High
Zeehan STP	●	●	- -	●	●	●	●	Medium

Table key ● Compliant >95 per cent ● Minor non-compliance 75-<95 per cent
● Substaintially non-compliant 50-<75 per cent ● Non-compliant >50 per cent
- - Chlorine disinfection not used NA - No outfall to waterways

Table 4.2. Summary of Level 1 sewage treatment plant limit compliance and discharge risk

Site	Key Wastewater Parameters							Discharge Risk
	Ammonia	Biochemical Oxygen Demand	Chlorine	E. coli	Total Suspended Solids	Nitrogen	Phosphorus	
Ansons Bay East	🟢	🔴	- -	🔴	🟡	🔴	🔴	NA
Ansons Bay West (Blivett)	*	*	- -	*	*	*	*	NA
Arthur River	🟠	🟡	🟢	🟢	🟢	🟠	🔴	NA
Bagdad	🟢	🔴	- -	🔴	🔴	🟡	🟡	High
Barwick Lagoons	🟢	🟢	- -	🟢	🟢	🟢	🟢	NA
Bell Bouy	🟢	🟡	- -	🔴	🟡	🟠	🔴	NA
Bronte Lagoon	🔴	🟡	- -	🟢	🟡	🔴	🔴	NA
Bronte Park	🟢	🟢	- -	🟠	🟠	🟢	🟢	Low
Colebrook	🟢	🔴	- -	🟢	🔴	🟢	🟢	Low
Collinsville	🟢	🟢	- -	🟢	🟢	🟡	🟡	Low
Conara	🟢	🟢	- -	🟠	🟢	🟢	🟢	Medium
Cowrie Point	🔴	🟡	- -	🟢	🟢	🔴	🔴	NA
Dodgee Ferry	*	*	- -	*	*	*	*	NA
Dunalley	🔴	🟡	- -	🟢	🔴	🟡	🟡	Medium
Flinstone (Arthurs Lake)	🟡	🟡	- -	🟠	🟢	🟡	🟢	Low
Granville Harbour	🟢	🟢	- -	🟢	🟢	🟠	🟢	NA
Grassy	🔴	🟠	- -	🔴	🔴	🟢	🟢	Medium
Gretna	🟢	🔴	🟢	🔴	🔴	🔴	🟡	Medium
Hamilton	🔴	🟡	- -	🟢	🟠	🟢	🟢	Medium
Kalangadoo	🟢	🟡	- -	🟢	🟠	🟢	🟢	NA
Karanja	🟢	🟢	- -	🟠	🟠	🟢	🟢	NA
Maydena	🟢	🟢	🟡	🟢	🟡	🟢	🟢	Medium
Nile	🟢	🔴	- -	🟠	🟢	🔴	🟢	Medium

Table key 🟢 Compliant >95 per cent 🟡 Minor non-compliance 75-<95 per cent
🟠 Substaintially non-compliant 50-<75 per cent 🔴 Non-compliant <50 per cent
- - Chlorine disinfection not used * Sampling did not occur in 2023-24
NA - No outfall to waterways

Site	Key Wastewater Parameters							Discharge Risk
	Ammonia	Biochemical Oxygen Demand	Chlorine	E. coli	Total Suspended Solids	Nitrogen	Phosphorus	
Nubeena	●	●	- -	●	●	●	●	Medium
Ouse	●	●	- -	●	●	●	●	Low
Ross	●	●	- -	●	●	●	●	High
South Arm (Blessington)	●	●	●	●	●	●	●	Medium
Southport	●	●	- -	●	●	●	●	Low
Trial Harbour	●	●	- -	●	●	●	●	Medium
Waratah	●	●	- -	●	●	●	●	Medium
Wayatina	●	●	- -	●	●	●	●	NA
Western Junction	●	●	- -	●	●	●	●	High
Woodbridge	●	●	●	●	●	●	●	High

Table key ● Compliant >95 per cent ● Substaintially compliant 75-<95 per cent
● Substaintially non-compliant 50-<75 per cent ● Non-compliant <50 per cent
- - Chlorine disinfection not used * Sampling did not occur in 2023-24
NA - No outfall to waterways

4.5 We also face a challenge to maintain dam safety

We currently have 353 water and sewage storages, lagoons, and weirs within our portfolio of dams. Dam Safety Regulation is a function within NRE.

Generally, all dams including levees and weirs, are regulated in Tasmania under the *Water Management Act 1999* and the *Water Management (Safety of Dams) Regulations 2015*. The Water Management (Safety of Dams) Regulations 2015 require dam owners to comply with the guidelines developed by the Australian National Committee on Large Dams (ANCOLD). It is noted that, under Tasmanian legislation, the ANCOLD guidelines apply to all off-stream dams greater than one megalitre and all on-stream dams.

The ANCOLD Guidelines on Dam Safety Management (2003) require that "dam risk profiles are available and that risks are being addressed on a priority basis" and states that dam owners should "give priority to life safety risks over other risk".

We have made progress addressing key dam safety risks in our portfolio over the last 10 years, including decommissioning a number of dams that were no longer required (for example the recent decommissioning and rehabilitation of Tolosa Dam in Glenorchy). This has significantly reduced the number of dams we own that are considered high risk. Despite this, we still have five dams that are above the ANCOLD Limit of Tolerability and require investment to reduce risk to acceptable levels.

Currently, 42 of our dams have been assessed as having a consequence category of "Significant"

and above. A further 14 dams have been identified as potentially having population at risk and are subject to further assessment. The remaining dams have a "Low" or "Very Low" Consequence Category. Our dam safety risks are outlined in Figure 4.10.

Our aim is for all dams to be below the ANCOLD "limit of tolerability" for societal risk and will meet the ANCOLD principle for ensuring dam safety risk is 'as low as reasonably practicable'. Our dam risk profile is something that is constantly monitored and assessed, as it will change over time.

We maintain a Dam Safety Management Plan to outline our current assessment of risk and our mitigations. We provide an annual progress report to the Dam Safety Regulator, on our improvement plan to address the high-risk dams in the portfolio. Our current plan has been accepted by the Dam Safety Regulator and is included in *Appendix D. Regulatory commitments.*

4.6 How we propose to overcome our remaining challenges

The extent of our inherited compliance gap is too large to bridge in one regulatory pricing period. The investment required is too great and would result in a program of work that is beyond our ability to deliver and a price increase that is not sustainable for our customers.

Accordingly, we adopt a risk-based approach to prioritising our compliance activities, in collaboration with our technical regulators (EPA, DoH and NRE). Our approach is based on identifying and prioritising action on those areas of highest risk first, to achieve the greatest improvements in the shortest time, representing the best value to customers.

Our evidence and risk-based approach led to a decision to prioritise regulatory compliance for drinking water via our PSP proposals over the past 10 years. Our decision to prioritise drinking water quality was made transparently with all our technical regulators and other key stakeholders.

We are now shifting our focus towards a step-change in sewage environmental compliance, starting with the upgrade and rationalisation of our highest risk sewage treatment plants, in accordance with our agreed Wastewater Risk Management Plan with the EPA. This will result in the most prudent and efficient outcome over the long-term, noting that delay of these investments will increase total cost to customers and leave the next generation of customers with a larger bill, or worse, irreversible environmental degradation. Our Water Future Community Advisory Panel was strong in its recommendation not to delay needed investment in our assets.

We have already begun this important work, with foundation projects for the Hobart Sewerage Improvement Project underway (e.g. Selfs Point Sewer Transformation Project) and key projects for the Launceston Sewer Transformation (LST) in delivery (e.g. Tamar Estuary River Health Action Plan Combined System Projects). The upgraded Selfs Point Sewage Treatment Plant alone will deliver a 132-tonne reduction in nutrients entering the River Derwent annually and create opportunity for billions of litres of recycled water.

4.7 How we will meet our regulators' requirements

We have extensively engaged our technical regulators (EPA, DoH and NRE) in the preparation of our long-term plans. Using the evidence risk-based approach outlined above, the engagement is formalised in agreed management plans. These management plans serve to align the priorities between regulators and TasWater, and include the:

- Wastewater Risk Management Plan
- Drinking Water Quality Management Plan
- Dam Safety Management Plan

For the purposes of this PSP5 Proposal, the regulators have also provided us with their key priorities for our PSP5 Proposal. A short summary of how we propose to respond to these priorities is provided in Table 4.3. A detailed breakdown of actions and agreed Risk Management Plans is provided for in *Appendix D. Regulatory commitments.*

Figure 4.10. Summary of dam safety compliance risks

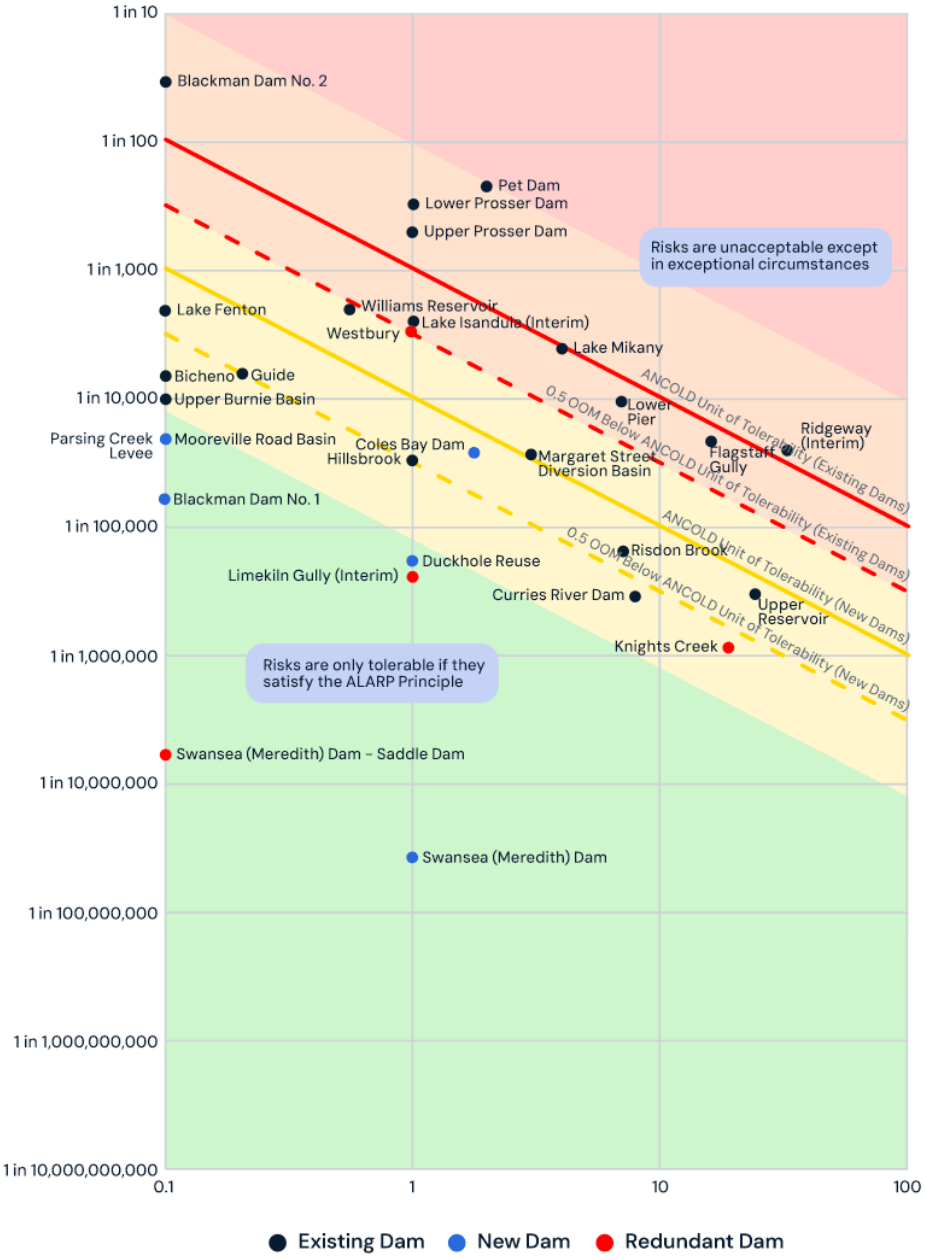


Table 4.3. Our response to technical regulator priorities

Industry Regulator	Regulator's priority	How TasWater plan to meet this expectation
Director of Public Health (DoH)	• The DoH acknowledged the substantial investments over the first four regulatory periods that have reduced risks to public health from drinking water. • The following priorities were provided for TasWater to incorporate into PSP5. • Ongoing compliance of water quality by meeting the management framework set out in the ADWG. • Meeting Health Based Targets (HBTs) by addressing Log Reduction Value (LRV) deficits. • Continue to improve fluoridation management, performance, and asset renewal. • Plan and prepare, where appropriate, for the impacts of climate change on water quality incidents and raw water security, including desalination and purified recycled water. • Identify opportunities for service introduction where practical and cost-effective. • Addressing network water losses to minimise threats to public health, including asset renewal. • Minimising sewage discharges that impact on public health, such as shellfish leases and recreational water quality.	Our PSP5 Proposal supports our on-going 100 per cent microbiological compliance for safe drinking water, consistent with ADWG. We have proposed funding to eliminate extreme and high risk drinking water sites under our Health Based Targets commitment to DoH. In total, there is $65.1 million of capital investment to maintain safe drinking water. The highest risk drinking water treatment systems will be addressed in PSP5, in particular St Marys ($10.0 million) and a project to improve treatment of drinking water on Hobart's kunanyi/Mt Wellington ($9.8 million). In addition, we will continue our regional towns' drinking water treatment upgrades, ensuring safe drinking water across Tasmania. Our PSP5 outcomes, namely reducing leaks in our network and improving environmental outcomes, are aligned to the stated priorities of DoH.
Director of the Environmental Protection Agency (EPA)	• The EPA wrote to TasWater on 30 May 2025 to endorse our WRMP. The EPA considered that, "on balance, the WRMP sufficiently addresses EPA's priorities for compliance improvement". • The EPA noted that the WRMP will see the current level of 18 high-risk Level 2 sewage treatment plants reduced to a target of 9 sites during PSP5. • The WRMP allows a flexible approach to the delivery of risk reduction commitments, necessary due to the complexity of varying stages of planning. • The EPA noted the project commitments as outlined in Table 2 of the WRMP, including: – those projects to be delivered to completion in PSP5 – projects in development or commencing during PSP5 that may move to implementation phase during PSP6 • The EPA noted that the WRMP also commits to maintenance of both the current level of treatment and risk at TasWater's medium and low risk sewage treatment plants. • The EPA will continue to assess compliance against Environmental Protection Notices, permits and licence requirements and "consider the application of enforcement actions as appropriate according to EPA's Compliance Enforcement Policy".	We will reduce the number of sewage treatment plants that have been identified as posing unacceptably high environmental risks from 18 to 9 by the end of PSP5. Our proposed operating and capital expenditure forecasts also provide allowance for a number of improvements as we strive to improve environmental outcomes and compliance across all sewage treatment plants. We have two recycled water investments planned, at Smithton and Bicheno, which represent the least cost disposal of treated effluent. We continue to explore our least cost options for greatest environmental improvement. The projects we commence in PSP5 will lay the foundation for a step-change improvement in environmental risk again in PSP6 and beyond. While we will also improve environmental compliance, we continue to use environmental risk to prioritise our investments, as the path to compliance will take multiple PSP periods.

Table 4.3. Our response to technical regulator priorities continued

Industry Regulator	Regulators priority	How TasWater plan to meet this expectation
Department of Natural Resources and Environment (NRE)	• In accordance with the Water Management Act 1999, the Minister (or delegate) may formulate measures to ensure dam safety, particularly through plans to eliminate or reduce risks to people, property or the environment. • TasWater is required to conduct an Annual Portfolio Risk Assessment for all dams with Significant or above Consequence category and provide a progress report to the Minister annually. • The Department's role in reviewing the Annual Report is to ensure TasWater has considered and provided relevant information to satisfy NRE as the regulator that TasWater's Dam Safety Program is continuing to manage the portfolio of high-risk dams safely in accordance with its regulatory obligations and relevant ANCOLD guidelines. • NRE, as the regulator, has reviewed the Annual Report. Based on this review, NRE accepts that TasWater's Annual Report has addressed its obligations and has demonstrated that TasWater is adequately meeting its regulatory dam safety obligations, while also documenting a work program to continue to reduce portfolio risk to as low as is reasonably possible. • NRE also noted an update to that the timeline for the spillway upgrade works at Lake Mikany Dam, which had been modified with an updated completion date now expected in 2028.	We use risk to prioritise our investments in dam safety, applying industry standards for dam risk assessment. In PSP5, we have five dams that are above the ANCOLD 'limit of tolerability' and several more that are not considered to be presently a risk 'as low as practicable'. We will address three high risk dams in PSP5 (Ridgeway Dam, Pet Dam and Blackman River Dam) and progress our planning to address the remaining two dams (Prosser Upper and Lower) in PSP6. The key projects we are undertaking in PSP5 are: • Ridgeway Dam upgrade on kunanyi/ Mt Wellington ($143.8 million) • Pet Dam upgrade near Burnie ($97.1 million) • Blackman River Dams upgrade near Oatlands ($22.6 million) • Mikany Dam spillway upgrade near Smithton ($14.8 million) • Prosser River: Upper and Lower Dams – Planning ($3.3 million) This marks a significant and necessary improvement in our dam safety profile, ensuring these dams remain safe and operational in the future. We also note that further investigation of our dam safety risks is occurring on a regular basis and our view on risk will consequently change over time.

Appendix for *Chapter 4 Our regulatory commitments*

- Appendix D. Regulatory commitments

Including the following:

- Attachment D.1 – Correspondence from Director of Public Health
- Attachment D.2 – Health Based Target LRV Deficit Summary
- Attachment D.3 – Correspondence from Director of Environmental Protection Authority
- Attachment D.4 – Wastewater Risk Management Plan
- Attachment D.5 – Correspondence from Dams Safety Regulator
- Attachment D.6 – 2024-25 DSMP Annual Update
- Drinking Water Risk Management Plan
- Dams Safety Management Plan

5. Our new framework for measuring outcomes and service standards

What we will deliver over PSP5

- We are committing to the delivery of customer and environmental outcomes that will drive long-term value for our customers and allow us to meet our regulatory commitments.
- We have not met a number of our service standards in PSP4. We acknowledge that we need to address our poorly performing assets improve our overall results against these metrics.
- We have listened to our customers in developing a new framework to deliver outcomes to address what matters most to them.
- This includes a number of new measures, capturing a greater scope of customer and environmental outcomes and backed by our investment plans.
- We will hold ourselves accountable to our customers on these measures across the PSP5 period.
- These outcomes see us finally address decades of under-investment in our assets and take us further on our journey of meeting our regulatory obligations and customer expectations.

This section of our submission sets out:

5.1 Our new framework for delivering what matters

5.2 Our current performance against customer expectations

5.1 Our new framework for delivering what matters

Our commitment to genuine and meaningful engagement with our customers does not end with the development of our PSP5 Proposal. Moving forward, we have designed a new framework to guide its implementation over the PSP5 period to ensure we remain transparent and accountable to our customers about delivering what matters.

Our new framework is centred around 10 key PSP5 outcomes, which clearly articulate what it is that customers can expect of us over the PSP5 period. These deliverables align with the long-term direction of our Strategy, but also respond directly to feedback from our customers about what is important to them in the short-term.

In turn, we have reconsidered the customer service standards set in the Customer Service Code administered by the TER to identify those metrics that reflect the improved performance we must strive for if we are to achieve our PSP5 deliverables. We have supplemented these with some new, more meaningful, customer-facing metrics that respond directly to the feedback we received from customers. The end result is a set of 24 key measures of success for the PSP5 period, spread across our 10 key PSP5 deliverables.

Taken together, these metrics do not supersede or replace the full suite of operational and customer service standards reflected in our Customer Service Code or reported by the Bureau of Meterology, which compiles an annual National Performance Report of all urban water and sewerage utilities in Australia. We will continue to monitor our performance against all of these standards throughout the PSP5 period, as these standards remain important to our delivery of exceptional water and sewerage services for a thriving Tasmania.

Rather, our new framework provides a clear focus for our business, and our customers, on the areas where we expect to lift our performance over the PSP5 period. We know that what gets measured gets managed, so our PSP5 measures of success signal the uplift in our performance that we know is necessary over the next four years. They also give us a platform to discuss our progress against our PSP5 deliverables more transparently and meaningfully with our customers. Our proposed commitments are outlined in Figure 5.1 and the new measures in Figure 5.2.

Figure 5.1. Our PSP5 Outcomes

WHAT WE HEARD					
Fixing leaks	**Securing water for our future**	**Providing reliable services and responding to faults quickly**	**Being easy to deal with and providing support**	**Protecting our environment and waterways**	**Give customers greater control over their bill**
WHAT WE WILL DELIVER					
Reduced leakage in our system	Improved water security	Reduced instances of unplanned interruptions and poor service outcomes	Improved customer satisfaction and resolving issues	Reduced environmental impact	Charging based on usage
	Support customers to conserve water	Timely response and restoration of unplanned interruptions	Increase effectiveness of TasWater Assist		
		Maintain safe drinking water			

Figure 5.2. Our new framework for PSP5

Customer Feedback Theme	PSP5 Outcome	Measures
Fixing leaks	Reduced leakage in our system	Percentage of drinking water supplied lost as leakage
Securing water for our future	Improved water security	Percentage of customers impacted by water restrictions caused by lack of water security (excluding periods of greater than 1:10 drought)
	Support customers to conserve water	Residential drinking water use per person per day (litres per person per day)
Providing reliable services and responding to faults quickly	Reduced instances of unplanned interruptions and poor service outcomes	Percentage of customers that may experience greater than 5 unplanned water supply interruptions in any 12-month period
		Percentage of customers that may experience greater than 3 sewer interruptions in any 12-month period
		Number of water main breaks, bursts and leaks per 100km of water main
		Number of sewer main breaks and chokes per 100km of sewer main
		Number of water and sewerage complaints per 1,000 customers
	Timely response and restoration of unplanned interruptions	Percentage of response times within target for water bursts and leaks (P1 50%, P2 30% & P3 20% weighting)
		Percentage of rectification times within target for water bursts and leaks (P1 50%, P2 30% & P3 20% weighting)
		Percentage of sewer spills, breaks and chokes responded to within 1 hour
		Percentage of sewer spills, breaks and chokes rectified within 3 hours
	Maintain safe drinking water	100% microbiological compliance
Being easy to deal with and providing support	Improved customer satisfaction and resolving customer issues	Overall customer satisfaction with TasWater score (by survey)
		Customer-initiated fault and emergency telephone calls answered within 30 seconds
		First Point Resolution (FPR) of account enquiry telephone calls as a percentage (via post call survey)
		Total number of billing and account complaints per 1,000 properties
		Complaints responded to within 10 business days (unless extended by agreement)
		Customer Satisfaction of enquiry telephone calls as a percentage (via post call survey)
	Increase effectiveness of TasWater Assist	Percentage of customers who are accessing, or have accessed, our support programs that agree the program is effective (via survey)
Protecting our environment and waterways	Reduced environmental impact	Percentage reduction of Nitrogen and Phosphorous to waterways
		Percentage reduction of Volume of Scope 1 and 2 carbon emissions (CO_2-e tonnes per year)
		Percentage in volume of our sewage effluent that is beneficially reused
Giving customers greater control of their bill	Charging based on usage	Moving to new tariff structures that better reflect customer usage and give customers more control of their bill

We have developed targets that are ambitious yet achievable. We have supported this targeted uplift in performance with our prioritised investment plans, supported by our PSP5 Proposal. We are confident we can bridge the performance gap on many of the outcomes. A summary of the outcomes and improvements for PSP5 is included in *Chapter 6 Our proposed outcomes and service standards*.

5.2 Our current performance against customer expectations

Service standards for our customers were introduced with industry reform in 2009. These service standards have remained largely the same, focusing on leakage in our systems, response and rectification times to customer outages, network performance and complaints.

Despite small areas of improvement, we have prioritised investment in improving drinking water outcomes and consequently not met all of the service standards over time. Currently, one in four customers experience unplanned water outages and there is one break or blockage for every 2km of water or sewerage pipe each year. The age, condition and performance of our infrastructure means that we have one of the highest rates of water and sewerage pipe breaks, bursts, leaks and chokes of all major water businesses in Australia.

Over the PSP4 period, we have seen progress on some of the metrics and have recently made a significant investment in reducing leakage in our networks. Last year, we were pleased to report that unaccounted for water (leakage) had reduced to 24.5 per cent, down from 28.1 per cent in the year before and as high as 32.6 per cent in the past.

Our customer service, when customers contact us, continues to be a strong point of our performance and we have achieved small but important improvements with customer complaints.

However, significant performance gaps remain, and we recognise that we are not meeting customer expectations across many of our service standards. In 2023-24, we failed to meet 12 out of 19, or almost 63 per cent, of our targets.

Table 5.1 shows our current performance against our target performance for water services, sewerage services and customer experience.

Table 5.1. Performance against PSP4 service standards

	Service		PSP4 FY23	PSP4 FY24	PSP4 FY25	PSP4 FY26
	Water					
1	Number of breaks, bursts and leaks per 100km of water main	Target	33	32	31	30
		Result	47.17	42.8		
2	Percentage of response times within 1 hour to attend Priority 1 bursts and leaks	Target	90%	90%	90%	90%
		Result	100.0%	93.8%		
3	Percentage of response times within 3 hours to attend priority 2 bursts and leaks	Target	90%	90%	90%	90%
		Result	92.6%	92.6%		
4	Percentage of response times within 3 days to attend for Priority 3 bursts and leaks	Target	90%	90%	90%	90%
		Result	91.8%	90.9%		
5	Number of unplanned water supply interruptions per 1,000 properties	Target	170	169	167	165
		Result	239	325		

	Service		PSP4 FY23	FY24	FY25	FY26
	Water (continued)					
6	Percentage of unplanned water supply interruptions restored within 3 hours	Target	80%	80%	80%	80%
		Result	84.3%	81.0%		
7	Percentage of unplanned water supply interruptions restored within 5 hours	Target	94%	94%	94%	94%
		Result	93.6%	93.2%		
8	Percentage of planned water supply interruptions restored within the time nominated to affected customers	Target	90%	95%	95%	95%
		Result	88.4%	85.7%		
9	Percentage of planned water supply interruptions restored within 5 hours	Target	90%	90%	90%	90%
		Result	58.0%	62.1%		
10	Percentage of unaccounted for water (of total sourced potable water)	Target	20%	19%	18%	17%
		Result	28%	25%		
11	Real losses: water lost per km of water main per day (kL)	Target	9.0	8.0	7.5	7.0
		Result	10.6	7.6		
	Sewerage					
12	Number of breaks and chokes per 100km of sewer main	Target	40	40	39	38
		Result	48.1	63.9		
13	Percentage of sewage spills, breaks and chokes responded to within 1 hour	Target	90%	90%	90%	90%
		Result	83.4%	79.8%		
14	Percentage of sewage spills contained within 3 hours	Target	99%	99%	99%	99%
		Result	99.0%	92.7%		
15	Number of critically notifiable sewage spills	Target	2	2	1	1
		Result	15	12		
	Customers					
16	Number of water complaints per 1,000 properties	Target	6.0	6.0	6.0	6.0
		Result	7.47	6.99		
17	Number of sewerage complaints per 1,000 properties	Target	1.3	1.1	1.0	1.0
		Result	1.70	2.03		
18	Percentage of calls resolved upon first contact[6]	Target	90%	90%	90%	90%
		Result	95%	95%		

6. Our proposed outcomes and service standards

What outcomes we will deliver for customers and the environment over PSP5

- We have collaborated with customers to understand the outcomes that are important to them when it comes to the provision of water and sewerage services.
- We have committed to delivery of these important outcomes, and developed a comprehensive set of service standards to measure our performance across PSP5 as we strive to deliver.
- Our proposed capital and operating expenditure over PSP5 reflects the investment needed to progress our delivery of these outcomes.
- We acknowledge that our journey to fully deliver these outcomes will take multiple PSP periods. However, we can no longer defer our investment in addressing the challenges Tasmanian communities face. If we don't invest now, we'll continue to fall behind the investment required to maintain our assets, creating a larger, unsustainable challenge for future generations.
- Achieving our PSP5 outcomes is an important step towards getting us on a sustainable footing for the future.

This section of our submission sets out our customer outcomes and service standards:

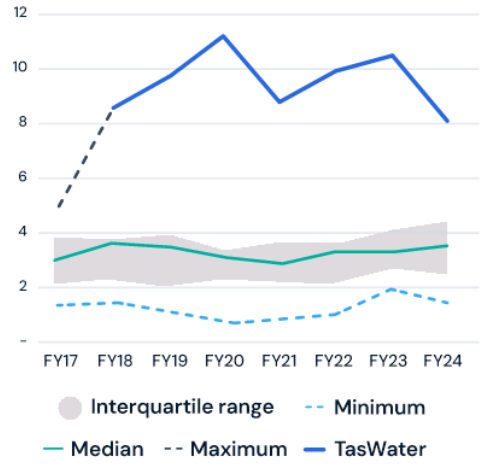
6.1 Outcomes for customer theme: Fixing leaks
6.2 Outcomes for customer theme: Securing water for our future
6.3 Outcomes for customer theme: Providing reliable services and responding to faults quickly
6.4 Outcomes for customer theme: Being easy to deal with and providing support
6.5 Outcomes for customer theme: Protecting our environment and waterways
6.6 Outcomes for customer theme: Giving customers greater control over their bill
6.7 Other outcomes in PSP5
6.8 Our proposed PSP5 customer service standards
6.9 Our proposed PSP5 customer contract

6.1 Outcomes for customer theme: Fixing leaks

Outcome 1. Reduced leakage in our system

Since our formation, we have been challenged by a high rate of leakage from our water systems. Our poorly performing assets result in the nation's highest rate of water losses, when compared to interstate water businesses as illustrated in Figure 6.1 and 6.2[53].

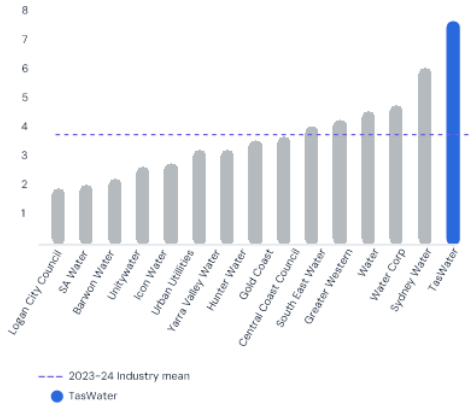
Figure 6.1. Major water businesses: Real losses (kL/km water mains/days)



The high levels of leakage in our systems have significant implications for customers and our business, including:

- Increased operational inefficiencies and higher reactive maintenance costs.
- Reduced water security and environmental sustainability.
- Reduced customer value and levels of service.
- Challenges in meeting stakeholder and customer expectations for responsible water management.

Figure 6.2. 2023-24 Real losses: water mains (kL/km water main/day)



Addressing these issues is critical to achieving improved outcomes for customers and are therefore an important part of TasWater's strategy.

In PSP4, we measure and report on the percentage of "unaccounted for water"[54]. This measure includes two types of water losses:

- Real losses, which are leakage and overflows from water mains, reservoirs and connections up to the customer's meter.
- Apparent losses, unauthorised consumption and customer metering errors.

"Unaccounted for water" therefore measures the volume or percentage of drinking water that is produced yet is not reported as being supplied or charged to customers. Our highest recorded amount of unaccounted for water was 32.6 per cent in 2015-16. In 2023-24, we were pleased to see a reduction to 24.5 per cent, reflecting our recent increase in focus and investment. (Table 6.1).

Our customers have also told us that reducing leakage, or wasted water, is important to them. The Water Future Community Advisory Panel made a recommendation for us to increase our focus on "proactive infrastructure management and maintenance" and to future-proof our infrastructure.

53 Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24).
54 This is also referred to as "non-revenue water" is some of our communications.

We also received a strong sense of customer support to reduce leaks in our broader engagement, with 78 per cent of Bill Simulator respondents saying they would be willing to pay more to improve our ability to fix leaks and faults quickly, as outlined in Table 6.2.

Our customers have said:

- "The age of infrastructure is causing leakages. It's critical that leakage be addressed. It's cheaper to replace infrastructure today than tomorrow – but cheaper again if done yesterday."
- "The ability to track 30 per cent of your water resource accurately will surely be a strategic goal to reduce overall prices. That is a staggering amount."
- "Address wastage (of water)".

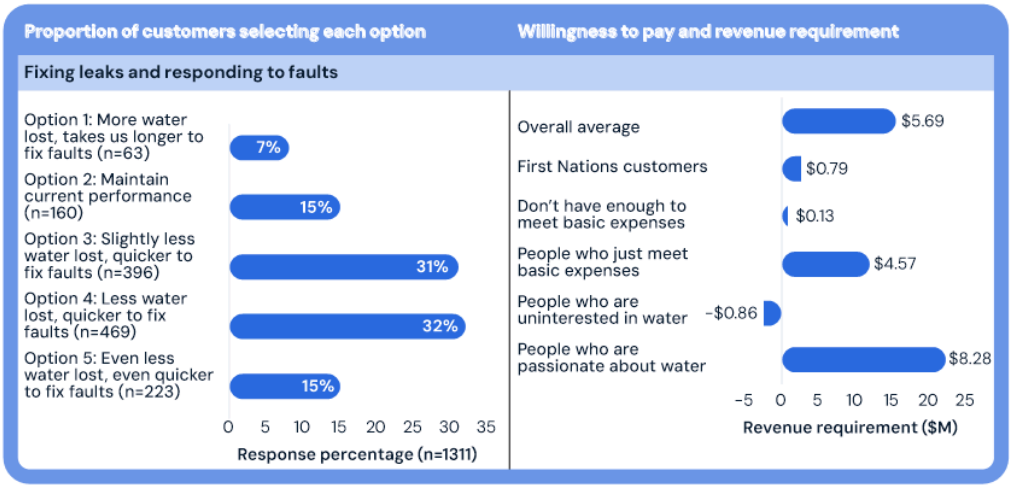
Our current poor network performance is a result of historical under-investment. This PSP5 Proposal seeks to address this trend by firstly catching up on the investment required and transitioning to a business-as-usual capital renewals for network assets in future PSP periods. This is in the form of a dedicated program of work to address water losses in the network, as well as an increase in water main and metering renewals. We are aiming to reduce leakage to efficient levels by 2030 and, reset our targets in our subsequent PSP6 Proposal.

We are proposing to introduce a new performance measure in PSP5: Percentage of drinking water supplied that is lost as system leakage. This measure will reflect real losses of water in the network, rather than a combination of real and apparent losses. Whilst we believe that apparent losses are important, and will

Table 6.1. Percentage of unaccounted for water[55]

Existing PSP4 measure	FY20	FY21	FY22	FY23	FY24
Percentage of unaccounted water (of total sourced potable water)	28.1%	25.4%	29.2%	28.1%	24.5%

Table 6.2. Willingness to pay for fixing leaks and responding to faults



55 We have also improved our measurement of non-revenue water over time, investing in bulk metering and district metered areas in PSP4 to improve the quality of measurement.

be addressed, real losses should remain our primary focus as it represents the majority of our "unaccounted for water" and best reflects the performance of our assets. Our proposed new performance measure and its comparison to the pre-existing indicator is provided in Table 6.3.

Improving the efficiency of our water systems, and reducing leaks, means we expect to realise corresponding savings by reducing the amount of water produced to service the same amount of demand. We have therefore reduced our forecast operating expenditure by $8.2 million over the period, reflecting lower production costs such as electricity and chemicals to produce less drinking water yet service the same amount of demand. A summary of the PSP5 outcome: Reduced leakage in our system is provided in Table 6.4.

Table 6.3. Proposed new measure of water leakage and comparison to existing measure

Measures	Base year	FY27	FY28	FY29	FY30
Proposed measure: Percentage of drinking water supplied lost as leakage	20.7% (FY24)	≤17.5%	≤15.0%	≤12.5%	≤10.0%
Existing measure: Unaccounted for water	24.5%	19.5%	17.6%	16.0%	14.4%

Table 6.4. PSP5 Outcome 1: Reduced leakage in our system

PSP5 Outcome	Reduced leakage in our system	
Measures and targets		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
Percentage of drinking water supplied lost as system leakage	20.7 per cent in 2023-24	≤10.0 per cent.
We will halve system leakage from 20.7 per cent to 10.0 per cent or less over the PSP5 period, based on our new performance measure that reflects real losses in the network. This is the equivalent to 14.4 per cent of unaccounted for water in 2029-30 under the existing measure. We are proposing to make a step-change in our leakage performance in PSP5, bringing levels to "efficient" levels, or otherwise described as levels of water leakage that are unavoidable or uneconomic to lower any further, by 2030.		
What we'll do		
We will invest to: • Reduce real losses: Adopt a prioritised, risk-based approach to renewals investment, supplemented by investment in technology to monitor the network and help to identify priorities for active leak management (including targeting non-visible leaks) and optimisation of water pressure management. • Reduce apparent losses: Implement programs to proactively reduce water theft, replace and maintain metering assets, test and implement new metering technology. • Manage efficient operational usage: Improve and implement new water efficient operational processes, including new technology in treatment and network operations to reduce operational use of water. • Establish an intelligent, sustainable water network: Create a network that constantly and proactively monitors, detects and reports asset, pressure, flow and leakage issues, thereby triggering repairs, maintenance or renewal activities.		
What we will invest		
We will invest $100.6 million in a dedicated leakage program that will deliver the actions outlined above. Complementing this investment, we will also increase our water mains renewals to $95.2 million, a 600 per cent increase from that approved in PSP4, as well as increase our metering renewals program to $45.1 million. We expect to leverage these renewals programs to improve system leakage.		

6.2 Outcomes for customer theme: Securing water for our future

Outcome 2. Improved water security

Ensuring adequate water security is an important part of our service obligation to the Tasmanian community, for both current and future generations. It is an essential component of building customer trust and confidence, for both residential and business customers across the state.

Along with the diversity of our water systems, we manage many different sources of raw water that is treated to become drinking water. Raw water can be sourced directly from nearby waterways and from our own dams and raw water storages. We will often rely on other state authorities for the collection, storage and transport of raw water to our systems.

Many of these sources, such as both rivers and dams, are subject to climate change risk. We undertake regular analysis and planning to monitor and intervene where water security is at risk. Our regional master plans take a long-term view of planning for water security, considering demand and supply of water. Alongside this, we have developed a Draft Water Supply Strategy[56], outlining our proposed service levels. Leveraging the long-term planning set out in these plans, we have carefully prioritised our short-term activities to improve water security over the PSP5 Period.

We supplement our long-term planning with proactive communications and engagement with communities to minimise short-term water security impacts and support customers with long-term water conservation approaches. Like reducing losses in our network, water conservation has many benefits including improved environmental outcomes and lower water supply costs over the long-term.

In the PSP4 period, we have made significant improvements in water security and resilience. This includes the upgrade of the Bryn Estyn Water Treatment Plant to supply greater Hobart (which most recently experienced water restrictions in 2021-22) and the construction of the Henderson Dam to supply Whitemark. We are also in the process of working towards greater water surety for Bridport, St Helens and Launceston, seeking increased licence allocations to support our long-term needs.

However, we currently estimate that only 48 per cent of our customers are supplied by a system capable of delivering our proposed water security service levels[57]. Customers are impacted differently over time, largely due to changes in climate and continued growth in water demand. We can see the evidence of these differential water security levels as, despite recent improvements, a number of towns experienced water restrictions in the last five years, as shown in Table 6.5.

56 TasWater's Draft Water Supply Strategy can be found at the PSP5 community engagement page
57 As at March 2025.

Table 6.5. Imposition of water restrictions since 2020

Location	Restriction Start Date	Restriction End Date	Restriction Severity (Stage)	Duration (Days)
Lady Barron	4/04/2025	Current	1	
Orford and Triabunna	4/04/2025	Current	1	
Whitemark	24/05/2024	13/06/2025	2	36
Whitemark	29/04/2024	24/05/2024	1	25
Orford and Triabunna	25/03/2024	29/06/2024	1 & 2	96
Whitemark	15/01/2022	30/04/2022	2	105
Hobart	14/12/2021	28/02/2022	1	76
Launceston	20/01/2020	31/03/2020	1	71
Whitemark	1/02/2020	30/10/2021	1 & 2	364
Gawler	20/01/2020	31/03/2020	2	71
Oatlands	20/01/2020	1/05/2020	2	102
Orford and Triabunna	20/01/2020	31/03/2020	2	71
Swansea	20/01/2020	31/03/2020	2	71
Scamander	3/01/2020	31/03/2020	2 & 3	88

As outlined in *PSP5 Outcome 1: Reduced leakage in our system*, our increased focus and investment in reducing leaks in our network is an important project to increase water security, ensuring we maximise the use of the water we source from the environment and treat for drinking water.

In addition to fixing leaks, our investments in water security can come in a number of ways. They include, but are not limited to:

- Securing access to additional bulk water licences and allocations.
- Developing projects that provide climate independent drinking water supplies (e.g. desalination, aquifer recharging etc.)
- Upgrading dam infrastructure to ensure optimal performance.
- Rationalising water treatment plants and combining systems.
- Upgrading and expanding water treatment capacity.
- Creating interconnections between systems to improve individual system resilience.

We are proposing a number of projects to improve water security and system resilience for Greater Launceston by connecting systems across the city, including the Mt Leslie Water Treatment Plant to Upper Brougham Tank Pipeline ($15.2 million) and the Waverley Interconnection Pump Station ($5.4 million). These projects will balance water from the large storage in the Trevallyn Dam against run-of-river supply from the St Patricks and North Esk Rivers, which have greater susceptibility to drought, reducing the risk of future water restrictions for customers currently serviced solely from these sources.

Safe dam operation is an important part of our obligations in delivering water services. Best practice risk assessment for dams considers a range of risk implications of dam failure, from environmental and physical damage, through to the potential for human and societal risk. In response, we must invest in upgrades of important dams that exceed our tolerable limit of risk.

Given that our dams primarily serve as raw water storages, we have included our dam upgrades

as an important element of maintaining water security. Should a dam's condition increase its risk profile, this can result in us having to lower the operating water level of the dam, or ultimately, not use the dam at all. Taking dams out of operation can have a significant impact on our ability to maintain water security in many of our drinking water systems. Additionally, many of our dam upgrade projects will increase the volume of water able to be stored, further benefiting water security. Examples include the Henderson Dam project that doubled its storage capacity from 45 to 90 megalitres, as well as the Blackmans Dam project supplying water to Oatlands, where an additional 400 megalitres of storage is proposed.

Our customers have also told us that securing water for the future is important to them. The Water Future Community Advisory Panel made a recommendation for us to "protect and improve the environment and water security", by ensuring we provide reliable access to quality water amid challenges like climate change (e.g. drought risk) and population growth.

In our Board Community Survey, 60 per cent of all respondents listed secure water supplies as one of their top 5 priorities. Our customers have said:

- "I like the fact TasWater are starting to think about future proofing our water usage, water conservation and assets, by doing it through community engagement, allowing the user to have buy-in."
- "Future catchments. Not sure that Tasmania ever puts thought into infrastructure before we need it, which puts us under pressure. If we continue to grow, our current catchments won't suffice. I would happily take on a higher percentage of my bill to pay for the future. I won't see the benefit in my lifetime, but it's for my children. We need to start planning."
- "Tasmania gets a lot of rain, but fresh water is scarce, so TasWater needs to get ready."

In addition to the supply-side investments identified to improve water security, reducing water usage is an important factor to improve water security. Our efforts to ensure that water use is efficient are captured in Outcome 3: Support customers to conserve water and Outcome 10: Charging based on usage.

Investing in dams to support water security

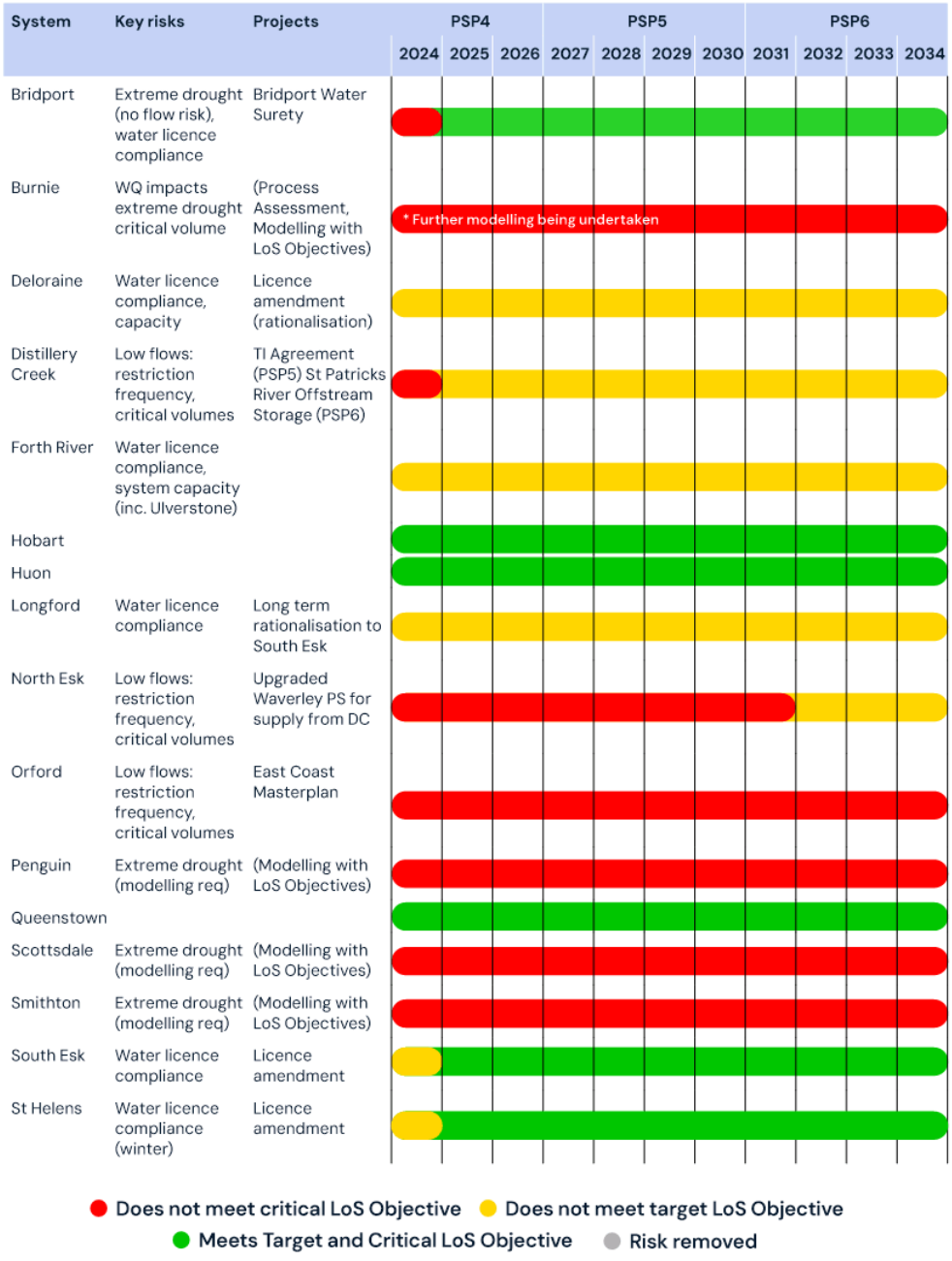
Safe dam operation is an important part of our obligations in delivering water and sewerage services. Best practice risk assessment for dams considers a range of risk implications of dam failure, including environmental and physical damage, through to the potential for human and societal risk.

In response, we must invest in upgrades of important dams that exceed our tolerable limit of risk. Our water security activities and investments are included in Table 6.6.

Table 6.6. PSP5 Outcome 2: Improved water security

PSP5 Outcome	Improved water security	
How we will measure success		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
Percentage of customers impacted by water restrictions caused by lack of water security (excluding periods of greater than 1:10 drought)	15.6 per cent for 2023-24	≤3 per cent
We will reduce the percentage of customers impacted by water restrictions caused by lack of water security (excluding periods of greater than 1:10 year drought) from 15.6 per cent to less than or equal to 3 per cent. This is a population weighted percentage measure of our customer base who experience water restrictions.		
What we'll do		
In PSP4, we made significant improvements to reduce the percentage of our customers that will experience restrictions. In particular, the upgrade of the Bryn Estyn Water Treatment plant for greater Hobart means that customers in Hobart are much less likely to experience restrictions. We will continue to seek innovative solutions to reduce the need to place communities on water restrictions, except for under drought conditions. There are a number of key upgrade projects being undertaken or commenced for pumps, pipes and water treatment plants at Lake Fenton ($1.2 million), Adventure Bay ($7.9 million), Bridport ($6.0 million), Mathinna ($0.9 million), Tunbridge ($0.4 million) and Greater Launceston ($15.2 million for Mt Leslie to Brougham Pipeline and $5.4 million for Mt Waverly Interconnector) to improve water security. In addtion to capital investment, we will explore securing future water licences and allocations to ensure we can future proof our water supplies. Additional catchment water yield analysis will support our knowledge of the probaility of water restictions into the future including the impacts of climate change. In PSP5 we will also progress our investigations for our water supply options in a number of supply systems that have increasing challenges, such as Orford, Triabunna and Lady Barron. Importantly, we will progress our planning for the North West Water Supply Strategy (replacing the current Forth Water Treatment Plant) which we have in our PSP6 plans. A business case for this has been 50 per cent funded by the National Water Grid. The project will ultimately secure long-term supply for this region, which does not currently meet the level of service outlined in our Water Security Strategy. We will also upgrade five dams that present higher than tolerable risk, consistent with our Dam Safety Management Plan, delivering both an improved dam risk profile, but importantly also improved water security outcomes.		
What we will invest		
We will invest a total of $367.7 million in PSP5 to improve water security outcomes across the state. This includes our investment in dam safety upgrades, with three major projects (Ridgeway Dam $143.8 million, Pet Dam $97.1 million and Blackman River Dams $22.6 million), which will address our three highest risks dams and improve water security in those catchments. Our investment also includes upgrades to water treatment plants at Lake Fenton, Adventure Bay, Bridport, Mathinna and Tunbridge and improving interconnection of the Greater Launceston network with the Waverly Pump Station Interconnector and Mt Leslie to Upper Brougham Pipline. In addtion to capital investment, there are a range of other actions, such as securing future water licences and allocations to ensure we can future proof our water supplies. Finally, we will enable growth across Tasmania with investments in key growth areas such as the Bowen Bridge to Risdon Brook Bulk Water Main Upgrade ($17.6 million) and the Sorell New Reservoir and Pipeline ($10.5 million).		

Figure 6.3. Water security improvement



System	Key risks	Projects	PSP4			PSP5				PSP6			
			2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Ulverstone	Capacity, water licence, Lake Isandula Reliability	Rationalise to Forth											
Westbury	Water licence compliance	Licence amendment											
West Tamar	Water licence compliance, capacity	Licence amendment (rationalisation)											

Our water security and dam safety risk profile

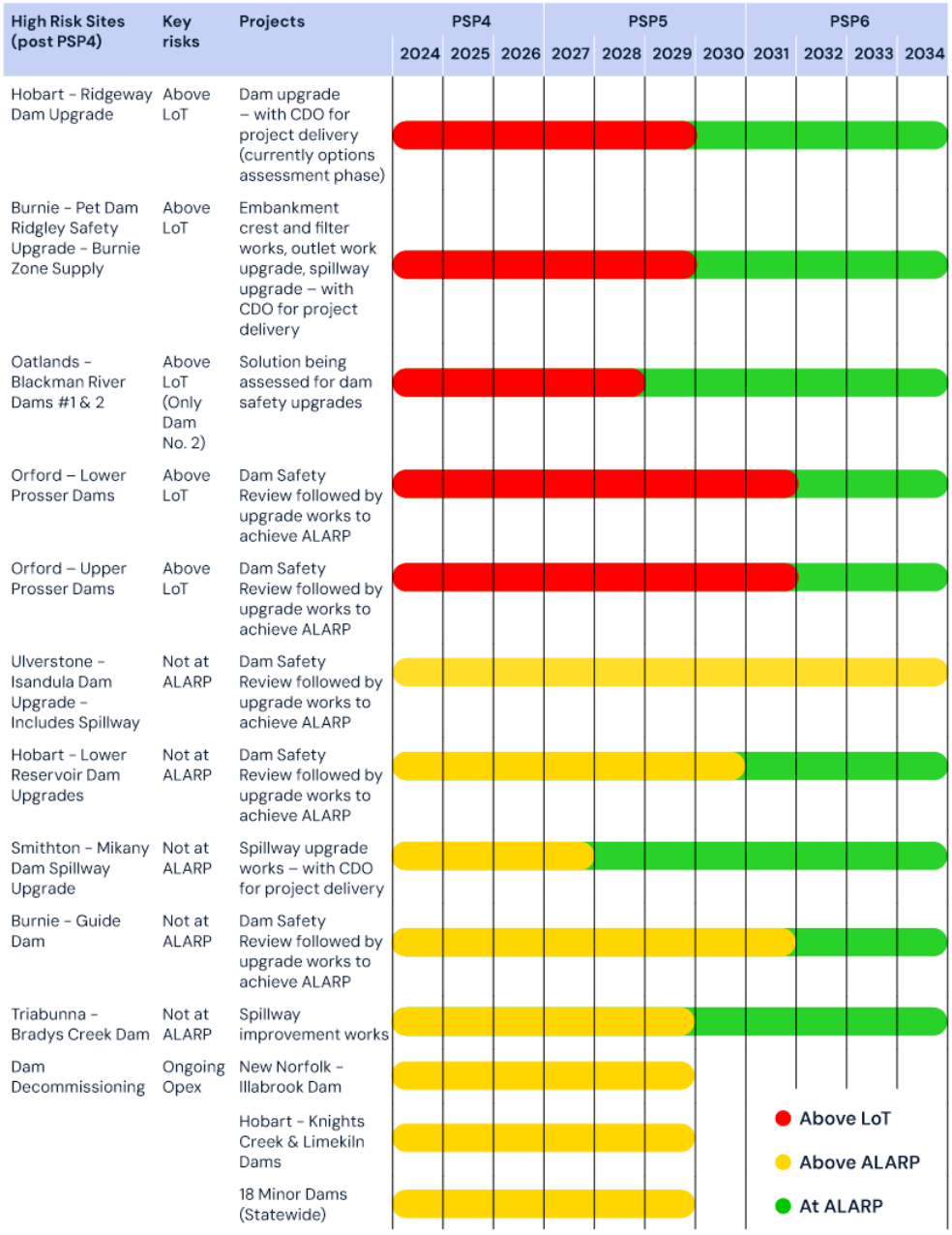
We have applied a risk lens to both water security and dam safety in PSP5, applying risk-based prioritisation to guide investment plans. To illustrate this, we have prepared risk profiles that outline the high-risk systems for water security and dam safety. As outlined in Figure 6.3, there are still a number of systems that remain challenged by water security and further work will occur to address or further plan for the long-term water security of these systems.

Likewise for dam safety, we prioritise the highest risks, based on industry best practice for dam risk assessment. In PSP5, we have five dams that are above the ANCOLD 'limit of tolerability' and several more where the risk is not considered to be 'as low as practicable'. While small in number, these dam projects are an important part of our role as a dam operator. The key projects we are undertaking in PSP5 are:

- Ridgeway Dam upgrade on kunanyi/ Mt Wellington ($143.8 million)
- Pet Dam upgrade near Burnie ($97.1 million)
- Blackman River Dam upgrade near Oatlands ($22.6 million)
- Mikany Dam spillway upgrade near Smithton ($14.8 million)
- Prosser River: Upper and Lower Dams – Planning ($3.3 million)
- General dam risk identification and assessments ($13.7 million)

We will address and remove dam safety risks to within acceptable levels at these dam sites within PSP5 and PSP6. The resultant improvement in dam safety compliance is shown in Figure 6.4, showing our actions on key dam safety risks. We also note that further investigation of our dam safety risks is occurring on a regular basis and our view on risk will consequently change over time.

Figure 6.4. Dam safety compliance improvement



Outcome 3. Support customers to conserve water

In an operating environment with increasing water scarcity, water conservation is becoming increasingly important in the Tasmanian context. Despite water restrictions in some population centres, Tasmania has not seen the extremes of water scarcity that some interstate cities have faced, nor have we had to invest in large, expensive supply augmentations. This, combined with the perception of high rainfall and a large proportion of water and sewerage bills being fixed, means that by our customers' own feedback, Tasmanians have often taken water for granted in the past. This is still a view that is held by some in our community:

- *"Just remember that the water that you supply falls from the sky for FREE!!! TasWater doesn't have to pay to obtain it."*
- *"Hobart has an abundant water supply. Making people feel guilty for using water is not good."*

However, this was not the majority view of our customers during the engagement or our Water Future Community Advisory Panel and, increasingly, customers tell us that we must value and conserve our water. The capture storage, treatment and distribution of treated water requires investment. Therefore encouraging customers to save water reduces our overall costs. A majority of customers echoed this sentiment and told us to focus on water security:

- *"We need to focus on saving every drop".*
- *"Educate the community to understand how precious water is."*
- *"TasWater needs foresight to conserve water and prepare for drought."*

Increased water conservation behaviours amongst our customers is necessary to drive long-term efficient investment in our systems. At scale, it can minimise or defer future supply augmentations that can often be large investments. In a world where a more variable and rapidly changing climate is impacting on the availability of water supply, water conservation is widely recognised as a responsible course of action. In addition to its water security and economic benefits, customers conserving water has a positive environmental impact by reducing the strain on our waterways and water sources.

Accordingly, water conservation was supported by our Water Future Community Advisory Panel, which suggested we should consider and support "education and incentives for water conservation", by developing comprehensive strategies to help customers maximise water efficiencies. This was considered especially important by the panel considering the alignment with its recommendation to increase the proportion of the bill based on usage.

In addition to encouraging water conservation for regulated water services, we are seeking to promote the use of recycled water as a fit-for-purpose replacement to raw or drinking water consumption. An example of this is our exploration of the long-term opportunity to use recycled water for irrigation in South East Tasmania. We see recycled water as an important part of our service offering in the future, as supplying recycled water to customers for purposes other than drinking water can offset their demand for drinking water and/or increase the value proposition of our services in line with a circular economy approach.

Our PSP5 Outcomes 3. Support customers to conserve water is summarised in Table 6.7.

Table 6.7. PSP5 Outcome 3: Support customers to conserve water

PSP5 Outcome	**Improved water security**	
How we will measure success		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
Residential drinking water use per person per day	217 litres per person per day (residential customers for 2023-24)	170 Litres per person per day
While our demand forecasts are based on growth and historical usage trends, we are setting an ambitious target to out-perform our own demand forecast, supporting customers to reduce their usage to 170 Litres per person per day.		
What we'll do		
We are continuing to invest and re-focus our efforts on supporting customers to use less water and improving water literacy. This will include continuing investment in our water conservation campaigns, and water literacy and education programs. We will also increase our role in helping customers take greater control of their water use, and lower their bills. We will provide new support for vulnerable customers, providing subsidised water efficient products and water efficiency audits. We will proactively engage state and local government to seek support and design programs to support customers using less water.		
What we will invest		
We will invest an additional $400,000 over the PSP5 period in a water saving devices program to complement water saving and water literacy campaigns..		

6.3 Outcomes for customer theme: Providing reliable services and responding to faults quickly

Outcome 4. Reduced instances of unplanned interruptions and poor service outcomes

Service interruptions occur when customers have their access to drinking water temporarily suspended, or when a blockage causes sewerage pipes to overflow on or adjacent to customer property.

We aim to limit unplanned water outages to one in six customers and to limit breaks, bursts and leaks to one per 3km of water pipe and one per 2.5km of sewerage pipe each year.

However, our current performance is worse than our target performance. Currently, one in four customers experience unplanned water outages and there is one break/blockage for every 2km of water or sewerage pipe each year.

In fact, Tasmania has one of the highest rates of water and sewerage pipe breaks, bursts and leaks of all major water businesses in Australia, as outlined Figures 6.5 and 6.6.

As a result, we regularly receive customer feedback and complaints regarding the impact and inconvenience of unplanned service interruptions.

Figure 6.5. Major water businesses: Number of water main breaks, bursts, and leaks, per 100km of water main (mains breaks per 100km)

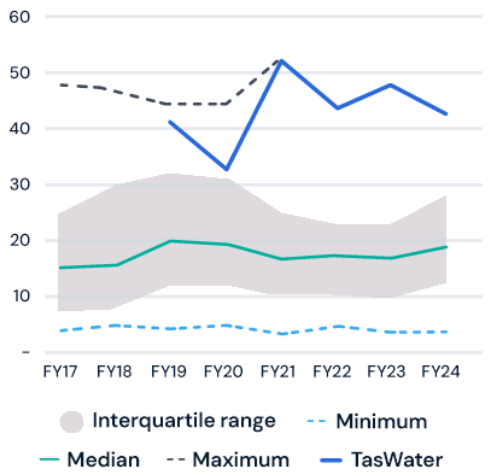


Figure 6.6. Major water businesses: Number of sewer main breaks and chokes per 100km of sewer main (mains breaks per 100km)

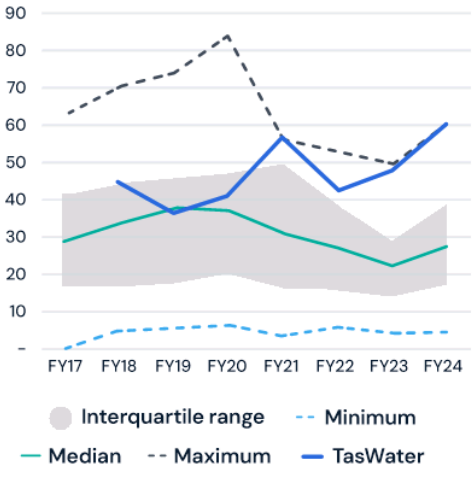


Figure 6.7. Typical condition of a water mains that require replacement

The performance of our networks is one of our biggest challenges and the breaks, bursts, leaks and chokes arising from poor asset condition, as shown in 6.7 and 6.8, directly impact the experience of our customers. Results from our Bill Simulator survey showed that 74 per cent of survey respondents are willing to pay more to improve the reliability of their service (Table 6.8).

Our customers told us:

- *"I understand that you need to upgrade current infrastructure, it's expensive, but in the long run it would be worth it...it happens to every industry, you need to spend money initially, but once you are set up, it saves you money."*
- *"Appropriate focus and consideration should be given to maintaining reliability of service, particularly to critical service providers (e.g. health)."*

We are proposing to significantly uplift our investment in asset renewals over the PSP5 period to improve the condition of our assets, and in doing so, improve the experience of our customers.

To ensure that our investment results in improved customer experience, we propose to introduce two new customer-centric performance measures for service interruptions over the PSP5 period, which will reflect the number of times that a particular customer experiences a water or sewer interruption. Introducing this new

Table 6.8. Willingness to pay for reliable services

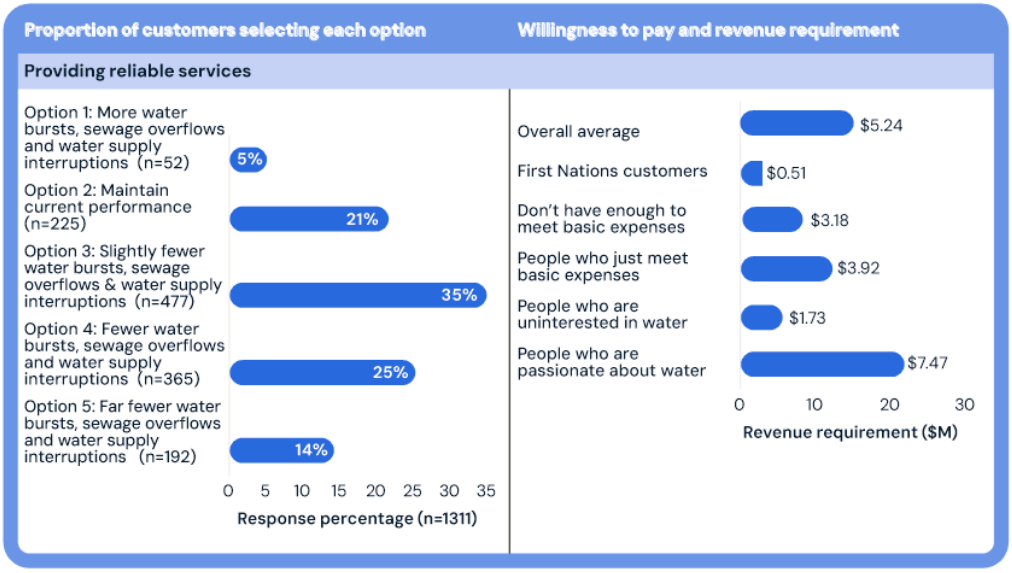


Figure 6.8. Water main burst demonstrating consequences of asset failure

performance measure will mean our efforts are focused not just on bringing down our overall number of breaks, bursts, leaks and chokes, but that we are carefully and thoughtfully planning our renewals so that our customers experience comparable levels of service across our network. Our aim is that very few of our customers (less 0.5 per cent) experience more than five unplanned water supply interruptions, or be impacted by three sewer interruptions, in any 12 month period.

These new performance measures are symbolic of our shift in mindset and overall intent to be more customer-focused, rather than asset-focused, over the PSP5 period. Even though we do not currently measure our performance in this way, we are committed to delivering the process and technology necessary to measure and report on these performance measures.

Alongside these new performance measures, we are also committed to significantly improving the performance of our assets to beyond both our current performance and our current target performance.

Our PSP5 *Outcome 4. Reduced instances of unplanned interruptions and poor service outcomes* is summarised in Table 6.9.

Outcome 5. Timely response and restoration of unplanned interruptions

Currently, we aim to contain 99 per cent of sewage spills within three hours and restore 94 per cent of unplanned water outages, and 90 per cent of planned water outages, within five hours.

We are close to achieving these targets for sewage spills and unplanned water outages, but only about 62.1 per cent of planned water outages are restored within five hours (although just under 90 per cent are restored within the time nominated to customers).

As outlined above, timely response to restoring our services remains important to our customers and we recognise that this is an integral part of our services. We are committed to improving our operations to ensure that we meet the minimum benchmarks for this. Our PSP5 *Outcome 5. Timely response and restoration of unplanned interruptions* is summarised in Table 6.10.

Table 6.9. PSP5 Outcome 4: Reduced instances of unplanned interruptions and poor service outcomes

PSP5 Outcome	Reduced instances of unplanned interruptions and poor service outcomes	
Measures and targets		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
Percentage of customers that may experience greater than 5 unplanned water supply interruptions in any 12-month period	These measures are new for PSP5, reflecting our new customer-centric focus for measuring this service standard.	≤0.5 per cent
Percentage of customers that may experience greater than 3 sewer interruptions in any 12-month period		≤0.5 per cent
Number of water main breaks, bursts and leaks per 100km of water main	42.8 in 2023-24	≤16
Number of sewer main breaks and chokes per 100km of sewer main	63.9 in 2023-24	≤20
Number of water and sewerage complaints per 1,000 customers	9.03 in 2023-24	≤7.0
We are looking to improve our network performance significantly, moving from the worst in the country towards the median for breaks and chokes measures. This would see us move the number of water mains breaks from 42.8 per 100 kms (2023-24) to ≤16 by 2030 and the number of sewer mains breaks and chokes from 63.9 per 100kms at (2023-24) to ≤20 by 2030, which is not only a significant improvement relative to our current performance but also our current target performance. We are proposing to introduce a new, more meaningful performance measures for this outcome. We are proposing to measure the number of repeat service interruptions for a customer across both water and sewerage services, with the aim of ensuring very few customers experience a significant number of interruptions in a rolling 12-month period.		
What we'll do		
Our network renewals programs have not historically been high enough to significantly improve the rates of network interruptions (e.g. breaks, bursts and chokes). This PSP5 Proposal will finally change that, with a significant uplift in renewals investment, aimed at bringing our performance in line with national benchmarks and improve network relaibility. In order to determine the 'efficient' level of investment to do this, we apply an industry best practice planning model, the Pipeline Asset and Risk Management System (PARMS), to our renewals program. The PARMS model uses our current asset condition information and predictive software models to provide an optimised and efficient renewal programs to achieve our goals. This is the basis for the water and sewer main renewals program investment plans.		
What we will invest		
In total, we will invest $228.1 million in providing reliable water and sewerage services, representing direct renewals and network investments to improve cutomer outcomes (this is $137.7 million in water networks and $90.4 million in sewerage networks). This includes investing $95.2 million in water mains renewals, $14.6 million in water treatment plant renewals and $12.1 million in water reservoir renewals. For sewerage services, it includes $30.1 million on sewer main renewals, $25.5 million in sewage treatment plant renewals and $14.5 million in sewage pump station renewals. This represents six times the amount of water mains renewals and more than twice the amount of sewer mains renewals investment compared to that approved in PSP4.		

Table 6.10. PSP5 Outcome 5: Timely response and restoration of unplanned interruptions

PSP5 Outcome	Timely response and restoration of unplanned interruptions	
Measures and targets		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
Percentage of response times within target for water bursts and leaks (P1 50%, P2 30% & P3 20% weighting)[58]	92.8 per cent in 2023-24	≥92 per cent
Percentage of rectification times within target for water bursts and leaks (P1 50%, P2 30% & P3 20% weighting)	76.0 per cent in 2024-25	≥92 per cent
Percentage of sewer spills, breaks and chokes responded to within 1 hour	79.8 per cent in 2023-24	≥92 per cent
Percentage of sewer spills, breaks and chokes rectified to within 3 hours	93 per cent in 2023-24	≥96 per cent
We have rolled together and weighted key measures on response and rectification times for water burst and leaks. We have maintained the 90 per cent target for those areas where we don't currently meet the target and increased to 92 per cent by the end of the period. We have stretched the target for those areas where we already perform strongly.		
What we'll do		
We have made our operational performance a strong focus of our strategy, with an outcome to see us 'nailing the basics'. We have developed a program of work to support operational improvements, which includes • Building efficient and standardised operational processes. • Improving the management operating system to improve performance measurement, roles and accountabilities, resource deployment and escalation approaches. • Uplifting technology to support operational processes and improve data capture. • Improved data reporting and use of data in operations • Application of activity-based costing within operational processes. This program of work is aimed at significantly improving operational efficiency and effectiveness and improved actionable insights.		
What we will invest		
This outcome will require optimising business as usual investment (e.g. improving our processes) supported by our strategic initiative funding. It will also be supported by our digital and data management investments.		

58 A "P1" service interruption relates to 'Priority 1' emergency bursts or leaks which cause, or have the potential to cause, major damage or harm to people, infrastructure or environment. 'P2' service interruptions are considered to have minor impacts and 'P3' to have little or no discernible impacts on customers (however still require remediation or rectification.

Outcome 6. Maintain safe drinking water

We are building a strong record of drinking water quality, having achieved 100 per cent microbiological compliance for the last six consecutive years. Microbiological compliance is now a norm for TasWater and this must be maintained.

However, we still have a number of drinking water systems that require investment to ensure all systems are meeting their treatment requirements under the Health-Based Target approach. Health-Based Targets are agreed with the DoH and outline underlying risks across our drinking water systems, where there is an opportunity to put in place additional barriers for drinking water safety (for example, additional water treatment process such as UV disinfection). *As outlined in Chapter 4 Our regulatory commitments, we commit to addressing these risks* (refer Table 4.5).

Our PSP5 *Outcome 6. Maintain safe drinking water* is summarised in Table 6.11.

Table 6.11. PSP5 Outcome 5: Maintain safe drinking water

PSP5 Outcome	**Maintain safe drinking water**	
Measures and targets		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
100% microbiological compliance	We have maintained 100 per cent microbiological compliance for six consecutive years	100%
We aim to maintain our 100 per cent microbiological compliance record.		
What we'll do		
While we now have a very strong performance in maintaining safe drinking water, we will continue to invest in some of our drinking water systems, particularly regional towns, to ensure they have the appropriate level of protection. This is consistent with our regulatory commitments, which will see us implement our Health Based Targets to address extreme and high-risk water treatment plants in PSP5. In total, there is $65.1 million of capital investment to maintain safe drinking water. The highest risk drinking water treatment systems will be addressed in PSP5, in particular St Marys ($10.0 million) and a project to improve treatment of drinking water on Hobart's kunanyi/Mt Wellington ($9.8 million) and additional treatment barriers at Bushy Park.		
What we will invest		
In addition, we will upgrade water treatment plants uplift water treatment barriers for Adventure Bay ($7.9 million), Bridport ($6.0 million), Campbell Town ($1.6 million), Roseberry ($1.3 million) as well as investments at Swansea, Westbury and Waratah. This is in addition to the Regional Towns Stage 4 Program ($13.5 million) which will upgrade Bothwell, Tullah, Oatlands, Yolla, Ellendale and Dover treatment plants.		

Figure 6.9. Drinking water quality risk improvement

ADWQR System	Program	PSP4			PSP5				PSP6			
		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Adventure Bay	TBA											
Bothwell	Regional Towns 4											
Burnie	UV2a											
Bushy Park	Pretreatment Filtration											
Campbell Town	UV2b											
Cornwall	Fingal to St Marys Pipeline											
Dover	CCP Optimisation + Regional Towns 4											
Ellendale	Regional Towns 4											
Forth River	Northwest Upgrade											
Gawler River	Northwest Upgrade											
Greater Hobart (Fern Tree)	UV											
Greater Hobart (Lake Fenton)	UV & Lake Fenton WTP											
Greater Hobart (Flagstaff Gully Dam)	Catchment Improvement											
Greater Hobart (Ridgeway Dam)	Catchment Improvement + UV											
Greater Hobart (Upper/Lower Reservoir)	Catchment Improvement + UV											
Leven River	Northwest Upgrade											
Launceston (Distillery Creek)	UV2a											
Launceston (North Esk)	UV2a											
Launceston (South Esk)	UV2a											
Launceston (West Tamar)	UV2a											
Oatlands	Regional Towns 4											
St Marys	Fingal to St Marys Pipeline											
Swanswa	UV2b											
Triabunna	CCP Optimisation											
Tullah	CCP Optimisation											

● Extreme Risk – Deficit ≥4 LRV ● High Risk – Deficit 3 LRV
● Medium Risk – Deficit 2 LRV ● Low Risk ≤1 LRV

Our drinking water quality risk profile

Our drinking water quality investment in PSP5 focuses on the water treatment plants that still require additional treatment layers to meet our drinking water quality regulatory commitments.

The focus of investment in PSP5 includes:

- Drinking water treatment barriers in regional towns such as Bothwell, Tullah, Oatlands, Yolla, Ellendale and Dover ($13.5 million)
- Improvements to the water quality at St Marys Water Treatment Plant ($10.0 million)
- Improvements to the catchment and treatment of the water from kunanyi/Mt Wellington ($9.8 million)
- Upgrades to the Adventure Bay water treatment plant ($7.9 million)
- A range of other minor yet critical water treatment plant upgrades including to Lake Fenton, Campbell Town, Rosebery, Swansea, Westbury, Waratah and Distillery Creek Launceston (total $4.1 million).

The improvement our drinking water quality risk profile resulting from these investments is provided in Figure 6.9. We will remove our extreme and high risks outlined in our Health Based Targets agreement with DoH. The St Marys water treatment plant will be rationalised. For the drinking water catchments on kunanyi/Mt Wellington, we will establish greater protection of the catchments with fencing and drainage, before installing UV treatment. At Bushy Park, we will install pre-treatment filtration and then rationalise as part of a Lake Fenton water treatment plant, in a project that will commence at the end of PSP5.

6.4 Outcomes for customer theme: Being easy to deal with and providing support

Outcome 7. Improved customer satisfaction and resolving customer issues

Our customer satisfaction has been relatively strong in PSP4, particularly for those customers who reach out to us to have their query or issue resolved. We have also been able to achieve a strong result in our overall customer satisfaction measure, first introduced in PSP4. However, TasWater customer expectations are evolving, and our service offering must adapt to ensure that it is meeting customer expectations. Underpinning this with effective and efficient processes that will deliver higher customer satisfaction and, in some cases, tangible cost efficiency.

In developing our PSP5 proposal, we tested whether our customers would like an enhanced digital experience. Almost half of the customers in our Broad Community Survey included 'being easy to deal with' as one of their top priorities and the willingness to pay results were spread, as outlined in Table 6.12. Our customer feedback interpretation of these results alongside verbatim customer feedback suggests that improved digital customer experiences will increasingly become important to customers in the future, with many customers reinforcing the need for a better online experience with TasWater, referencing the mobile phone applications experience in other utilities as something we should explore.

- *"Please make online access to our accounts available. We should be able to see all our past bills and usage. Only state I've been in where this isn't available. Don't see why it's so difficult. PS. Your telephone staff are excellent; courteous and helpful."*

- *"You need an app to report outages and see upcoming info. Customer service is good, but it's sometimes easier on an app."*

Recent customer research as part of our customer experience strategy has further reinforced the need for improvements to customer experience. Key findings included:

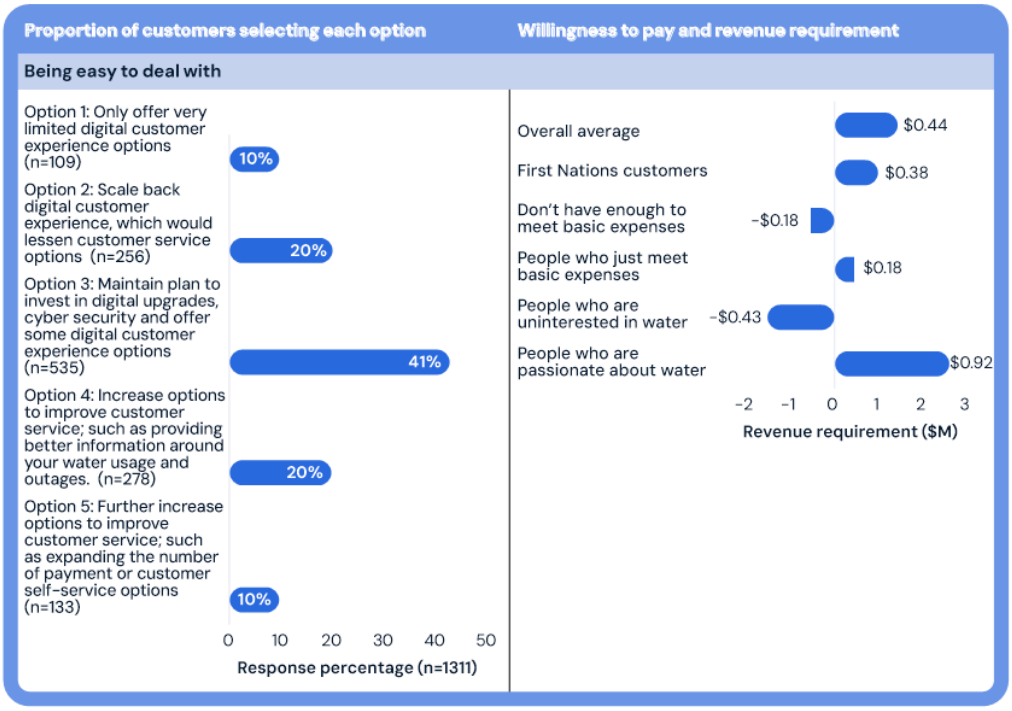
- Increased customer demand for autonomy, control, and personalised solutions.
- Growing expectations for secure, self-service digital platforms such as apps and online portals.
- A significant gap in TasWater's ability to manage customer expectations and provide timely updates for service-related issues.

Customer survey data from the 2021 TasWater Brand and Community Report underscores these trends:

- 57 per cent of customers prefer email communication.
- 19 per cent favour using the website for services.
- Only 9 per cent prefer phone contact, and 3 per cent opt for face-to-face interactions.

The case for continued investment in our customer experience, particularly digital service interactions, continues to grow steadily.

Table 6.12. Willingness to pay for being easy to deal with



We proposed to continue our strong customer satisfaction and experience results in our PSP5 Outcome 7: Improved customer satisfaction and resolving customer issues, which will build on our strong customer satisfaction and experience results to date, is as outlined in Table 6.13.

Table 6.13. PSP5 Outcome 7: Improved customer satisfaction and resolving customer issues

PSP5 Outcome	**Improved customer satisfaction and resolving customer issues**	
Measures and targets		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
Overall customer satisfaction with TasWater score (by survey)	72 per cent in 2023-24	≥80 per cent
Customer initiated fault and emergency telephone calls answered within 30 seconds	61.0 per cent in 2023-24	≥90 per cent
First Point Resolution (FPR) of account enquiry telephone calls as a percentage (via post call survey)	95 per cent in 2023-24	≥95 per cent
Total number of billing and account complaints per 1,000 properties	1.36 in 2023-24	≤0.8
Complaints responded to within 10 business days (unless extended by agreement)	99.5 per cent in 2023-24	≥97 per cent
Customer Satisfaction of enquiry telephone calls as a percentage (via post call survey)	98.0 per cent in 2023-24	≥97 per cent
From a relatively strong base, we are looking to continually improve our performance across these metrics over the course of the PSP5 period.		
What we'll do		
Whilst our current performance is relatively strong, we recognise that the quality of our customers interactions with us remains a very important part of our customers' overall experience of TasWater. We have revised our proposed performance measures to capture the important moments for customers' as they interact with us, as well as their overall satisfaction with TasWater. As part of evolving our customer experience, we have approved the investment in a customer self-service platform, to be delivered in 2026 for the cost of $3.0 million (total opex and capex). Our customer self-service platform will: • Provide customers the opportunity to manage their accounts, make payments, report issues and track requests online. • Improve transparency and timeliness of customer requests. • Reduce customer effort and increase convenience.		

Table 6.13. PSP5 Outcome 7: Improved customer satisfaction and resolving customer issues *continued*

What we'll do continued
Investment in our customer self-service platform will not only improve customer experience, but will improve our overall customer debt management, in turn lowering overall costs to customers. In future, we also expect to realise a lower cost to serve over time, as more customers become familiar with and use the customer self-service platform, again lowering overall costs to customers. Additionally, we will continue to review and improve our customer interactions and supporting systems and processes in the customer service centre.
What we will invest
We are not proposing any capital investment over the PSP5 period (beyond low level supporting investments), but will instead work to improve our customer service within our proposed operating cost envelope.

Outcome 8: Increased effectiveness of TasWater Assist

Provision of drinking water and safe treatment of wastewater are essential services that our customers cannot live without, so we have always been conscious of our role in supporting our vulnerable customers . We recognise that any price increase will impact these customers disproportionately and that, whilst other societal supports are available, we can still play an important role in our direct relationship with our customers.

Our customer panel also reaffirmed the importance of supporting vulnerable customers. They provided a specific recommendation that we should "increase awareness for the TasWater Assist program" to ensure we provide payment flexibility to customers and other forms of support to customers, particularly in light of our proposed price increases and changes to the proportion of our bills based on usage.

We agree with this recommendation, and we propose to not only promote but strengthen our vulnerable customer support. Our PSP Outcome 8: Increased effectiveness of TasWater Assist is summarised in Table 6.14.

Table 6.14. PSP5 Outcome 8: Increased effectiveness of TasWater Assist

PSP5 Outcome	Increased effectiveness of TasWater Assist	
Measures and targets		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
Percentage of customers who are accessing, or have accessed, our support programs that agree the program is effective (via survey)	Not currently measured	≥85 per cent.
We are introducing this new performance measure in PSP5 to reflect our commitment to strengthening our customers' experience of our support programs. We are not just seeking to ensure more customers are aware of the options available to them, but rather, those customers who need our support find it useful, effective and empowering. Accordingly, we have set ourselves an ambitious benchmark of 85 per cent as our success rate by 2030. We will have to establish new methods to test and report our progress against this benchmark, but we are undaunted by this task as we know it is the right thing to do. Despite the proposed price increase for PSP5, we have maintained a low estimate of bad debt write-offs in our proposed operating expenditure forecast ($379,000 in the 2024-25 base year, when this can increase to ~$800,000 in some years). We are aiming to use the increased investment in TasWater Assist to maintain a low level of debt write-offs in PSP5, among the other outcomes and benefits it provides customers.		
What we'll do		
We have redesigned and strengthened our TasWater Assist Program to include a greater range of support services for customers that may be struggling to pay their bills. Our expanded support services will include tailored case management, account reviews and financial health checks, water efficiency support and case management support for customers who may be experiencing family violence. Our redesigned TasWater Assist Program reflects modern and contemporary practice delivered by our mainland peers. Being at the forefront of vulnerable customer support is very important in the Tasmanian context, given Tasmania experiences a greater level of social and economic disadvantage than mainland states.		
What we will invest		
We will invest $2.4 million of operating expenditure over the PSP5 period to strengthen the TasWater Assist Program.		

6.5 Outcomes for customer theme: Protecting our environment and waterways

Outcome 9. Protecting our environment and waterways

A key platform of our PSP5 Proposal is our increased focus on addressing historical under-investment in sewage treatment infrastructure and improving environmental outcomes as a result.

We acknowledge that we cannot achieve our desired level of improved environmental performance in one pricing period, it will take many. However, we also know that if we do not start this investment now, our environmental risks will not only increase but compound, and we will pass on an even greater burden to future generations. Our customers also understand this dilemma, and have told us they are willing to pay more now for improved environmental outcomes.

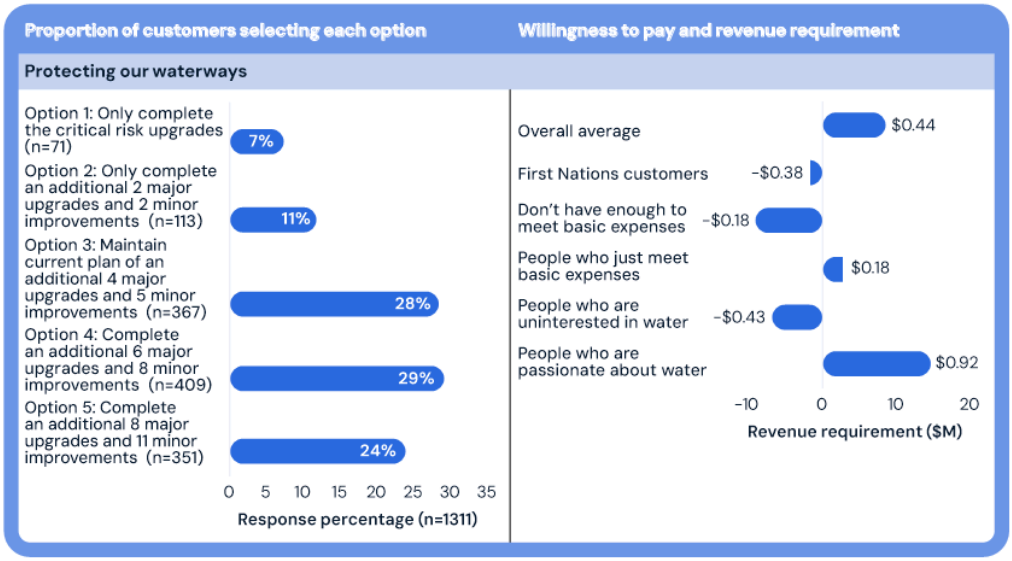
"Protecting and enhancing waterways and catchments" was the third highest priority of our customers in our Broad Survey and our Water Future Community Advisory Panel made a clear

recommendation that we "protect and improve the environment". Our customers told us:

- *"Water discharged into our waterways should have zero negative impact. Ideally water should be recycled and not discharged into our waterways."*
- *"Big problem to fix. Can't fix everything in the next five years. Prioritise investment to lift performance based on public health and environment risk, but making sure TasWater is efficient (i.e., fix some lower risk overflows that are adjacent to higher risk overflows)."*

Our willingness to pay Bill Simulator demonstrated that 53 per cent of overall respondents were prepared to pay for increased investment in environmental outcomes, above and beyond our initial level of proposed investment. This is outlined in Table 6.15.

Table 6.15. Willingness to pay for protecting our waterways



Accordingly, we propose to decrease nutrients such as nitrogen and phosphorous being discharged to waterways, as well as greenhouse gas emissions, from our operations.

We also propose to increase the amount of wastewater that we beneficially reuse to improve the environmental outcomes of our sewage treatment plants. This requires a step-change in how we have historically viewed the use of recycled water and will require partnerships with end use customers to achieve this result.

Our PSP5 Outcome 9. Protecting our environment and waterways is summarised in Table 6.16.

Table 6.16. PSP5 Outcome 9: Protecting our environment and waterways

PSP5 Outcome	Protecting our environment and waterways	
Measures and targets		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
Percentage reduction of nitrogen and phosphorous to waterways	1,324 / 263 tonnes (2021–22 base year)	–30 per cent Nitrogen / –25 per cent Phosphorous
Percentage reduction of Volume of Scope 1 and 2 carbon emissions (CO_2-e tonnes per year)	51,501tCO_2-e (2022–23 bas year)	–30 per cent
Percentage in volume of our sewage effluent that is beneficially reused (gigalitres (GL)/year)	7 per cent (in 2021–22 base year)	≥30 per cent
We propose to introduce these three new performance measures as a part of our PSP5 service standards. These will demonstrate improvements in our environmental performance over time, with a particular focus on the impacts from our sewage treatment plants.		
What we'll do		
Our initial focus is to upgrade and rationalise sewage treatment plants that currently discharge sewage effluent considered "high-risk" to the environment. In this way, we will work towards compliance with the full extent of environmental obligations over multiple PSP periods, using a risk-based and evidenced-based approach to prioritise our works. We have used our regional master plans to guide us, with an eye to reducing the number of sewage treatment plants, particularly in our larger population centres. For example, the completion of the Selfs Point Transformation Project and the commencement of the Launceston Sewer Transformation in PSP5 will become foundational investments to move toward the long-term plans for delivering the lowest cost community solution, while achieving the environmental outcomes being asked of us. We will address nine sewage treatment plants that are assessed as high environmental risk discharge over the PSP5 period and commence investment to address a further six high risk sewage treatment plants over the PSP6 period. Our investments will lower nitrogen and phosphorous being discharged in waterways and improve our environmental compliance.		
What we will invest		
We will invest $655.8 million to improve our environmental outcomes and compliance.		

In response, we have proposed $655.8 million in sewage treatment plant upgrades over PSP5. We have used our evidence risk-based approach to prioritise sewage treatment investment. It will see the commencement of generational investment to rationalise sewage treatment plants in Hobart and Launceston. It will also target our highest risk regional sewage treatment plants for compliance. The investments include:

- The final year of the Selfs Point Sewer Transformation Project ($31.5 million in 2026–27, not including external funding), a core part of the long-term Hobart Sewerage Improvement Plan (this project will cost a total of $314 million including external funding).
- Ti Tree Bend Sewage Treatment Plant upgrade ($355.5 million), an essential project for the Launceston Sewer Transformation.
- Investment in Hobblers Bridge ($24.8 million) and Prospect Vale ($20.7 million) sewage treatment plants, which will see them ultimately decommissioned as part of the Launceston Sewer Transformation.

- A capacity upgrade at Cambridge Sewage Treatment Plant ($16.6 million) and a recycled water scheme for Smithton Sewage Treatment Plant ($23.2 million) which delivers least cost sewage disposal and improved environmental outcomes.
- An upgrade to the Scottsdale Sewage Treatment Plant ($14.8 million) to reduce nutrients and pathogens to the receiving waterway.
- $25.5 million in our sewage treatment plant renewals program across the state.

The improvement in sewage treatment plant environmental risk is illustrated in Figure 6.10 and Figure 6.11. However, it should be noted that many of the large projects that commence in PSP5 are investments in the future, with the corresponding reduction in environmental risk being realised in the PSP6 period.

We will upgrade nine sewage treatment plants that are assessed as high environmental risk discharge and commence projects in PSP5 to address a further six high risk sewage treatment plants in PSP6. This will improve environmental outcomes and compliance as agreed with the EPA in our Wastewater Risk Management Plan. The projects we commence in PSP5 will lay the foundation for a step-change improvement in environmental risk again in PSP6 and beyond.

Figure 6.10. Sewage treatment plant environmental risk improvement for high-risk sewage treatment plants

STP	Key Risks	PSP5 Commitment	PSP4 '24	PSP4 '25	PSP4 '26	PSP5 '27	PSP5 '28	PSP5 '29	PSP5 '30	PSP6 '31	PSP6 '32	PSP6 '33	PSP6 '34
Sheffield	Nutrients, Ammonia & Pathogens	Pathogen reduction and missing zone improvement. Progress Planning for Master Plan outcome							S				
Smithton	Nutrients, Ammonia & Pathogens	Pathogen reduction						S					
Cameron Bay	Nutrients, Ammonia, Chlorine & Pathogens	Nutrient and mixing zone improvements					S						
Norwood	Nutrients	Planning for rationalisation								S			
Hoblers Bridge	Nutrients	Planning for rationalisation								S			
Scottsdale	Nutrients, Ammonia & Pathogens	Pathogen and nutrient reduction to waterways							S				
Prospect Vale	Nutrients, Ammonia & Pathogens	Rationalisation			S								
Bicheno	Nutrients, Ammonia, BGA & Pathogens	Reduction of key risks to waterways				S							
Turners Beach	Nutrients & Ammonia, Odour	Treatment improvements and odour reduction				S							

STP	Key Risks	PSP5 Commitment
Ti Tree Bend	Nutrients, Ammonia, Chlorine & Pathogens	STP upgrade
Macquarie Point	Nutrients, Ammonia, Chlorine & Pathogens	Rationalisation
Prince of Wales Bay	Nutrients, Ammonia, Chlorine & Pathogens	Planning for mixing zone improvements
Port Sorell	Nutrients, Ammonia & Pathogens	Pathogen reduction and mixing zone improvements
Ulverstone	Simplot Trade Waste, Pathogens	Trade Waste management
Triabunna	Nutrients & Ammonia	Reduction of key risks Oto waterways
Westbury	Nutrients, Ammonia & Pathogens	Planning for Master Plan outcome, re-investigate interim reuse options
Wynyard	Pathogens	Key risk reduction to recreational area
Geeveston	Nutrients, Ammonia & Pathogens	Mixing zone improvements
Swansea	BGA, Ammonia & Pathogens	Reduction of key risks to waterways
Stanley	Nutrients	Reduction to
Sorell	Upgrades for growth	Process capacity
Cambridge	Wet weather overflows	Process capacity improvements and bypass reduction
Carrick/ Hadspen	Upgrades for growth	Process capacity
Selfs Point	Upgrades for growth and rationalisation	STP upgrade
Orford	Wet weather overflows	Discharge capacity

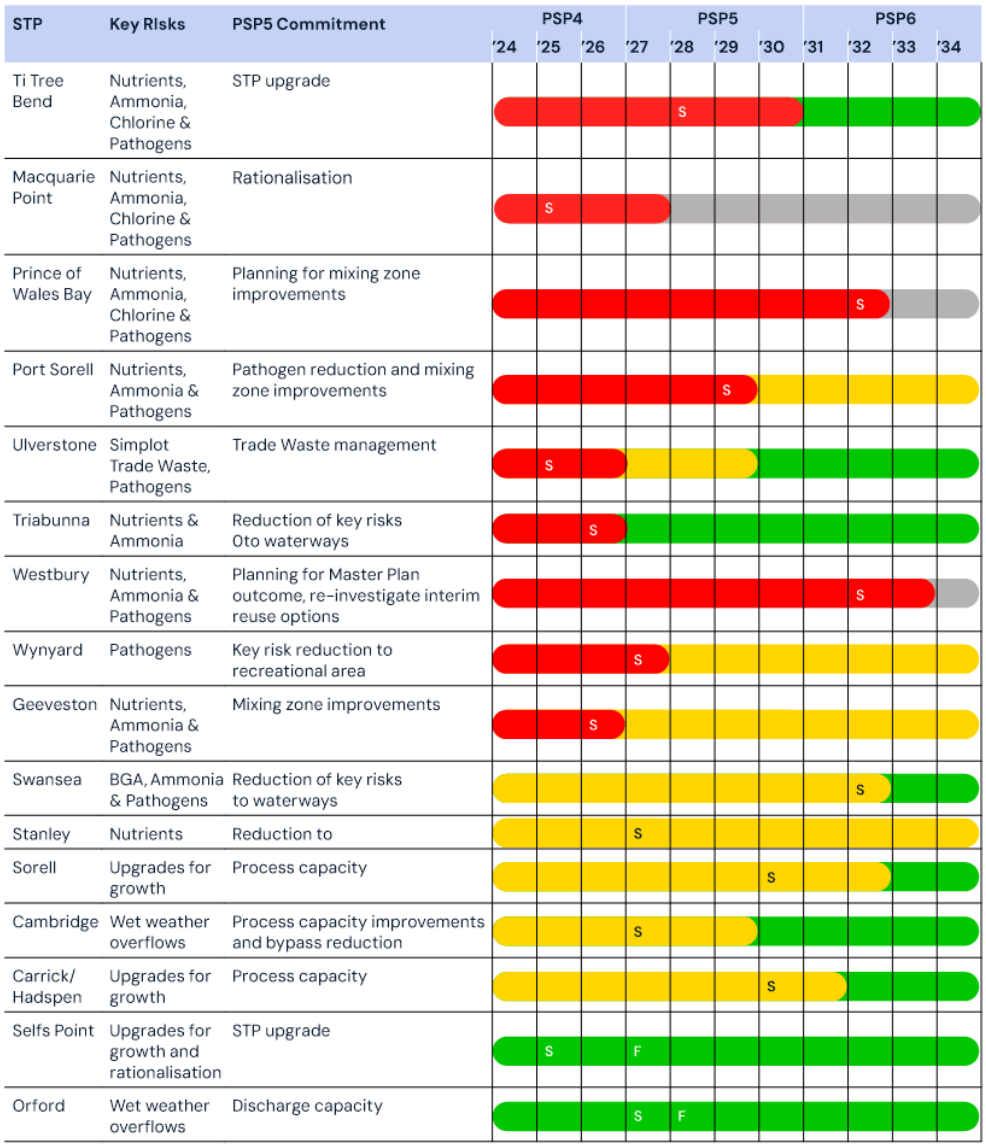
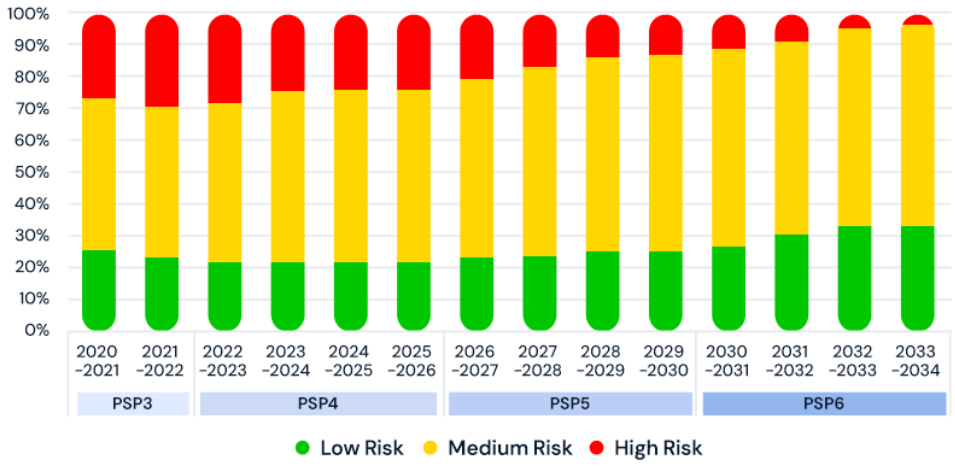


Figure 6.11. Sewage treatment plant environmental improvement for all Level 2 sewage treatment plants



6.6 Outcome for customer theme: Giving customers greater control over their bill

Outcome 10. Charging based on usage

Our residential bills are made up of a variable water usage charge (the amount of water a customer or household uses) and a fixed daily charge (the cost of providing high-quality drinking water and treating wastewater from your toilet, shower, sink and laundry).

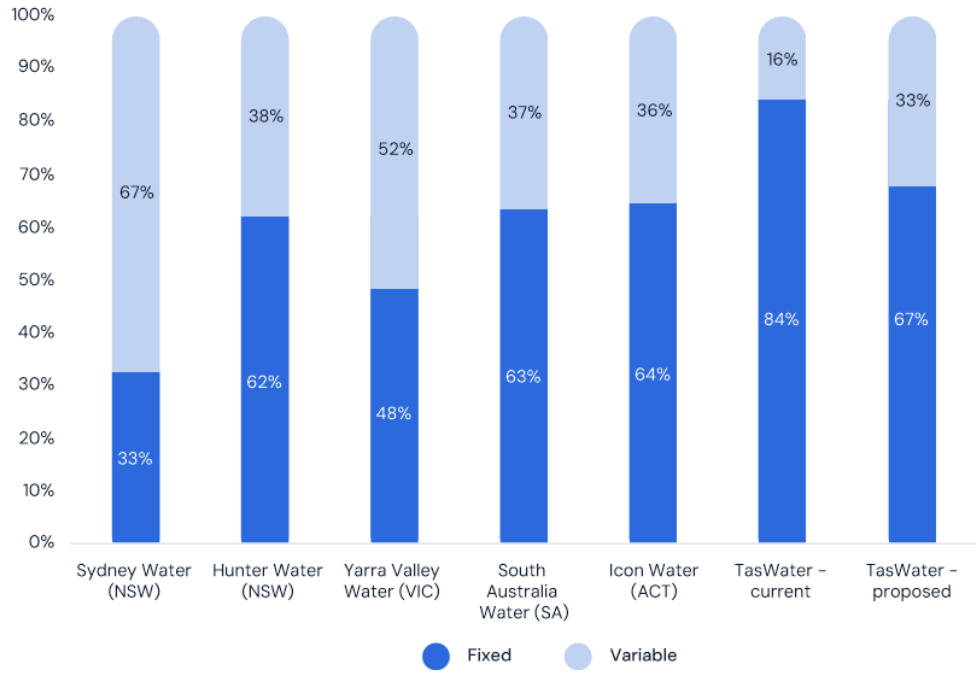
We currently have the highest proportion of fixed charges in an average customer bill of any Australian water business, as outlined in Figure 6.12. The current variable cost of water in Tasmania is $1.22 per 1,000 litres. The Australian average cost of water is $2.78 per 1,000 litres.

We consistently recieve feedback from customers that they are not incentivised to change their behaviour to conserve water, as our fixed charges are too high. Customers have told us:

- *"Prior to the introduction of water meters in Hobart I minimised my water use as I felt it was the right thing to do for the environment and community as a whole. Once meters were introduced and I saw how high the fixed charge was and how low the usage rate was, I figured that using more water by watering lawns in summer etc. would only put my overall costs up by a very small amount, so now I use a lot more water than I used to. I'd prefer to see the fixed component reduced and a higher rate for how much water you actually use."*
- *"Lower fixed charges and increases variable charges to encourage people to use or waste less water."*

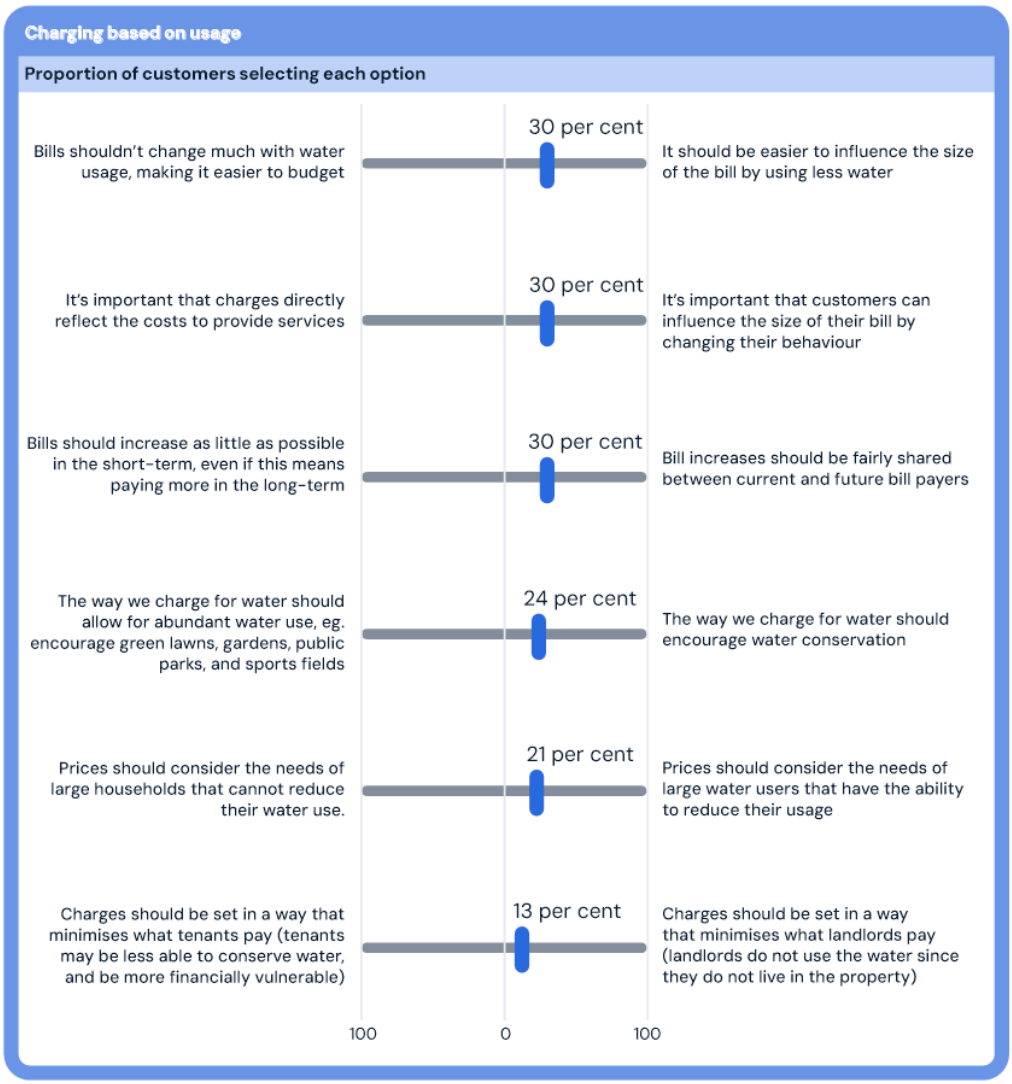
Responses to the Bill Simulator showed a strong overall preference for greater usage charges proportionately to fixed charges, as outlined in Table 6.17.

Figure 6.12. Fixed and variable bill splits of Australian utilities[59]



59 Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24) for an average residential bill of 200kL per annum consumption.

Table 6.17. Bill Simulator preferences for charging based on usage



Adjusting a water bill so that a greater proportion is based on usage charges can encourage water conservation and ensure fairer pricing. This kind of pricing model can help households and businesses control their bills more effectively while promoting sustainable water usage. Our proposed approach is to step-change to a higher level of variable charges, from 16 per cent to 33 per cent of an average residential customer bill, as outlined in Table 6.18.

Table 6.18. PSP5 Outcome 10: Charging based on usage

PSP5 Outcome	**Charging based on usage**	
Measures and targets		
Measure	**Current performance (PSP4)**	**PSP5 Measures of Success by 2030**
Increase the variable charge portion on customer bills.	16 per cent of the average residential bill is currently variable (based on usage).	33 per cent of the average residential bill is proposed to be variable.
We will implement a step-change in customer tariffs at the start of the PSP5 period, so that 33 per cent of an average residential customer bill is comprised of variable (usage) charges. We will achieve this step-change by reducing fixed charges, increasing the water variable (usage) charge and introducing a sewerage variable charge, consistent with the TER's *Inquiry into sewerage charges review* in 2024.		
What we'll do		
We will undertake a customer education program around this change and offer tailored customer support, particularly to customers with higher consumption. We will fund this within our current PSP4 opex allowance.		

6.7 Other outcomes in PSP5

There are a number of other important actions we will take over the PSP5 period to deliver outcomes our customers are seeking in this PSP5 Proposal.

Responding to the Water Future Community Advisory Panel

In response to the Water Future Community Advisory Panel recommendations, we also commit to the following additional actions:

- Review supply arrangements for unserviced communities: We will undertake a review of supply arrangements for unserviced communities with the state government and local councils, facilitated by LGAT.
- We will work with LGAT and state government to determine the priority for the servicing of unconnected properties in PSP5 with investment decisions being made in time for PSP6.
- Review the proximity and number of potable water refill stations to remote communities to meet expectations for the availability of water for carting purposes.
- Complete a 10,000 digital meter pilot: We are already moving to implement a digital meter pilot, which will inform a business case for statewide roll out. The digital meter project will provide near real time information to customers to identify hidden leaks on the customer's side of the water meter and avoid bill shocks. It will also provide customers with information to better manage their water usage.

Enabling growth

We play an important role enabling growth in Tasmania, aligned with state government and local council growth policies and projections. We must ensure that our infrastructure is not a blocker for growth and development across the state. These economic and social needs are considered in our regional master plans, ensuring we stage our investments to maintain our essential services where growth is occurring.

For example, a key initiative is our current collaboration with Brighton Council, which sees us investing in much needed sewerage infrastructure upgrades with the assistance of Australian Government funding. Together with Brighton Council we determined that sewerage infrastructure upgrades were critical to enable new developments by Homes Tasmania (low-cost housing), Department of Education, Children and Young People (new high school) and a number of private developers (housing, retail and community services) to proceed. These developments had been discussed by various proponents over time and the way forward was challenging from a financial, timing and risk perspective.

Working with the Brighton Council, we have now had federal funding announced to assist in funding this development, with an approximately $10 million project being part funded by the Australian Government (approx. $7 million) and TasWater (approx. $3 million). This project will unlock a new growth precinct near Brighton High School, allowing for the development of up to 600 dwellings, childcare facilities, and commercial spaces.

While many of our proposed PSP5 projects will consider growth needs consistent with our regional master plans, we have a number of projects that are necessary to service high growth areas proposed in PSP5 (i.e. their primary driver is growth). These projects include:

- Sorell – STP Upgrades for growth ($20.3 million)
- Bowen Bridge to Risdon Brook Bulk Main Upgrade ($17.6 million)
- Cambridge STP Capacity Improvements ($16.6 million)
- Sorell – STP Rising Main to Penna STP ($4 million)

We also consider our long-term capital investment requirements for growth as part of our developer charges, as outlined in *Chapter 15 Our proposed developer charges*. The proposed developer charges are an important funding mechanism for growth related capex.

6.8 Our proposed PSP5 customer service standards

A summary of our proposed service standards is provided in Table 6.19.

Table 6.19. PSP5 Proposed service outcomes

Customer Feedback Theme	PSP5 Outcome	Measures	Base year	FY27	FY28	FY29	FY30
Fixing leaks	Reduced leakage in our system	Percentage of drinking water supplied lost as leakage	20.7% (FY24)	≤17.5%	≤15.0%	≤12.5%	≤10.0%
Securing water for our future	Improved water security	Percentage of customers impacted by water restrictions caused by lack of water security (excluding periods of greater than 1:10 drought)	15.6%	≤5%	≤5%	≤3%	≤3%
	Support customers to conserve water	Residential drinking water use per person per day (litres per person per day)	217 (FY25)	≤200	≤190	≤180	≤170
Providing reliable services and responding to faults quickly	Reduced instances of unplanned interruptions and poor service outcomes	Percentage of customers that may experience greater than five unplanned water supply interruptions in any 12-month period	NEW	≤0.5%	≤0.5%	≤0.5%	≤0.5%
		Percentage of customers that may experience greater than three sewer interruptions in any 12-month period	NEW	≤0.5%	≤0.5%	≤0.5%	≤0.5%
		Number of breaks, bursts and leaks per 100km of water main	42.8 (FY24)	≤35	≤30	≤23	≤16
		Number of breaks and chokes per 100km of sewer main	63.9 (FY24)	≤50	≤40	≤30	≤20
		Number of water and sewerage complaints per 1,000 customers	9.03 (FY24)	≤8.5	≤8.0	≤7.5	≤7.0
	Timely response and restoration of unplanned interruptions	Percentage of response times within target for water bursts and leaks (P1 50%, P2 30% & P3 20% weighting)	92.8% (FY24)	≥90%	≥90%	≥92%	≥92%
		Percentage of rectification times within target for water bursts and leaks (P1 50%, P2 30% & P3 20% weighting)	76.0% (FY25)	≥90%	≥90%	≥92%	≥92%
		Percentage of sewer spills, breaks and chokes responded to within 1 hour	79.8% (FY24)	≥90%	≥90%	≥92%	≥92%
		Percentage of sewer spills, breaks and chokes rectified to within 3 hours	93% (FY24)	≥95%	≥95%	≥96%	≥96%
	Maintain safe drinking water	100% microbiological compliance	100% (FY24)	100%	100%	100%	100%

Table 6.19. PSP5 Proposed service outcomes continued

Customer Feedback Theme	PSP5 Outcome	Measures	Base year	FY27	FY28	FY29	FY30
Being easy to deal with and providing support	Improved customer satisfaction and resolving customer issues	Overall customer satisfaction with TasWater score (by survey)	72% (FY24)	≥75%	≥75%	≥75%	≥80%
		Customer-initiated fault and emergency telephone calls answered within 30 seconds	61.0% (FY24)	≥80%	≥87%	≥90%	≥90%
		First Point Resolution (FPR) of account enquiry telephone calls as a percentage (via post call survey)	95% (FY24)	≥95%	≥95%	≥95%	≥95%
		Total number of billing and account complaints per 1,000 properties	1.36 (FY24)	≤1.2	≤1.0	≤0.9	≤0.8
		Complaints responded to within 10 business days (unless extended by agreement)	99.5% (FY24)	≥95%	≥95%	≥97%	≥97%
		Customer satisfaction of enquiry telephone calls as a percentage (via post call survey)	98.0% (FY24)	≥95%	≥95%	≥97%	≥97%
	Increase effectiveness of TasWater Assist	Percentage of customers who are accessing, or have accessed, our support programs that agree the program is effective (via survey)	NEW	≥80%	≥80%	≥85%	≥85%
Protecting our environment and waterways	Reduced environmental impact	Percentage reduction of nitrogen and phosphorous to waterways	1,24 / 248 tonnes (FY22)	-15%	-20%	-25%/ -23%	-30%/ -25%
		Percentage reduction of Volume of Scope 1 and 2 carbon emissions (CO_2-e tonnes per year)	51,501t CO_2-e (FY23)	-15%	-20%	-25%	-30%
		Percentage in volume of our sewerage effluent that is beneficially reused (gigalitres (GL)/year)	7% (FY22)	≥14%	≥18%	≥20%	>30%

6.9 Our proposed PSP5 customer contract

Consistent with our requirements, we are proposing a new customer contract with this PSP5 Proposal.

Using the existing PSP4 customer contract as a basis, we have reviewed and updated our proposed PSP5 customer contract. Our proposed changes attempt to provide greater clarity by including simplified language, removing duplication, and some reordering of clauses. In addition, all proposed changes in the PSP5 Proposal that are relevant to the contract have been updated in the PSP5 contract. Further detail regarding the proposed changes is provided in *Appendix F. Customer contract changes.*

Section 3. The efficient costs of delivering our services

7. Overview of our proposed revenue requirement

Our operating context

- Our PSP5 Proposal presents an efficient and sustainable level of revenue for TasWater to deliver its regulated services and meet its customer and regulatory obligations.
- We propose a total of $2.2 billion revenue requirement over the PSP5 period, known as our Notional Allowable Revenue.
- Consistent with the TER's existing framework, our prudent and efficient expenditure, net of developer contributions, will be recovered via postage stamp prices.
- We have challenged ourselves to be efficient with our expenditure proposals and have taken care with our regulatory inputs to minimise the impact on prices wherever we can.
- Two-thirds of our proposed price increase is driven by inflation and interest rates, which are external economic factors.
- Our proposed capital and operating expenditure contribute 1.4 per cent and 2.7 per cent of our total price increase respectively, moving us toward modern and efficient water and sewerage systems that improve economies of scale and value for customers
- We have challenged ourselves to be as efficient as possible for those things we control.
- Our efficiency targets have lowered the total revenue we are required to recover from customers by $46.3 million over the PSP5 period.
- In order to minimise the impact on prices and smooth the impact over PSP6, we are proposing to defer $113.6 million of our Notional Allowable Revenue to be recovered in PSP6.

This section of our submission sets out how we have been efficient with our expenditure proposals in our PSP5 Proposal, including:

7.1 The method we used to calculate revenue and prices

7.2 Two-thirds of our proposed price increase is driven by external factors

7.3 We have challenged ourselves to be as efficient as possible

7.4 We are proposing to defer revenue to PSP6 to limit price impacts

7.1 The method we use to calculate revenue and prices

We have used the TER's existing methodology to calculate our regulated business revenue requirement, known as the Notional Allowable Revenue (NAR). This is the revenue we need to recover our forecast prudent and efficient costs needed to provide services that meet customer expectations,our operating licence and other regulatory requirements.

The NAR is determined using the 'building block' approach. The maximum prices we can charge for regulated services is then determined by dividing our NAR by our customer connections and usage across our price structures. The elements that make up our NAR are our operating expenditure, regulatory depreciation and a return on our capital expenditureand an inflation factor. This is summarised in Figure 7.1.

Figure 7.1. Schematic of how prices are calculated

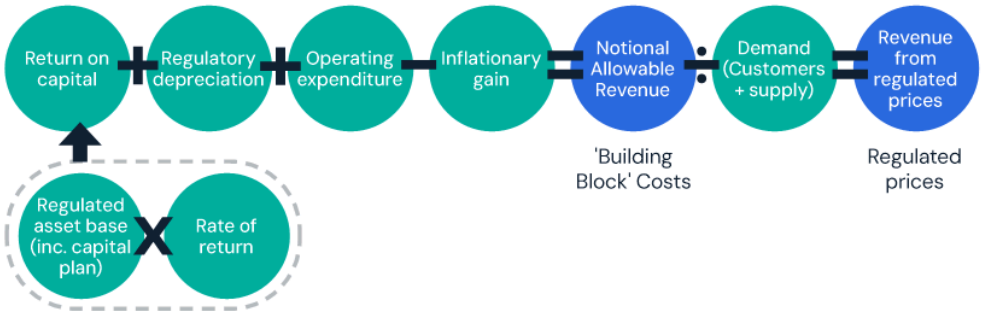


Table 7.1. Our proposed revenue requirement for the PSP5 period, $M

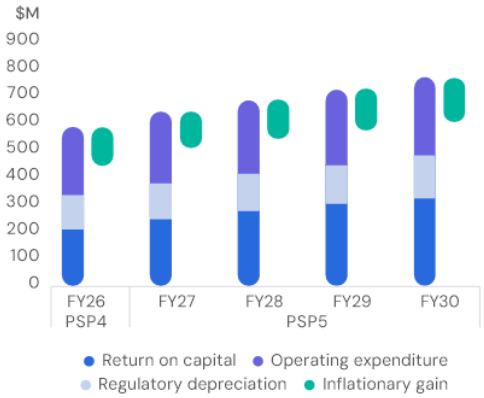
Building block component	FY26	FY27	FY28	FY29	FY30	PSP5 Total
Return on capital	212.5	256.7	280.0	304.5	327.6	1,168.9
Regulatory depreciation	125.7	124.5	134.9	144.8	152.5	556.6
Operating expenditure	250.7	265.2	270.8	279.6	289.2	1,104.9
Inflationary gain	-142.9	-132.7	-142.4	-153.0	-163.9	-591.9
Total	**446.0**	**513.7**	**543.3**	**575.9**	**605.5**	**2,238.4**

7.2 Two-thirds of our proposed price increase is driven by external economic factors

The method to calculate our revenue requirement allows us to recover our efficient operating costs and provides us with funds to finance and recover our capital expenditure over the (typically long-term) life of our assets. The allowance for financing our capital expenditure is based on our weighted average cost of capital (WACC). We sometimes refer to "interest rates'" as a general description of this element[60]. Our nominal framework also indexes our regulatory asset base (RAB) by inflation, to ensure we can recover our capital costs in real terms.

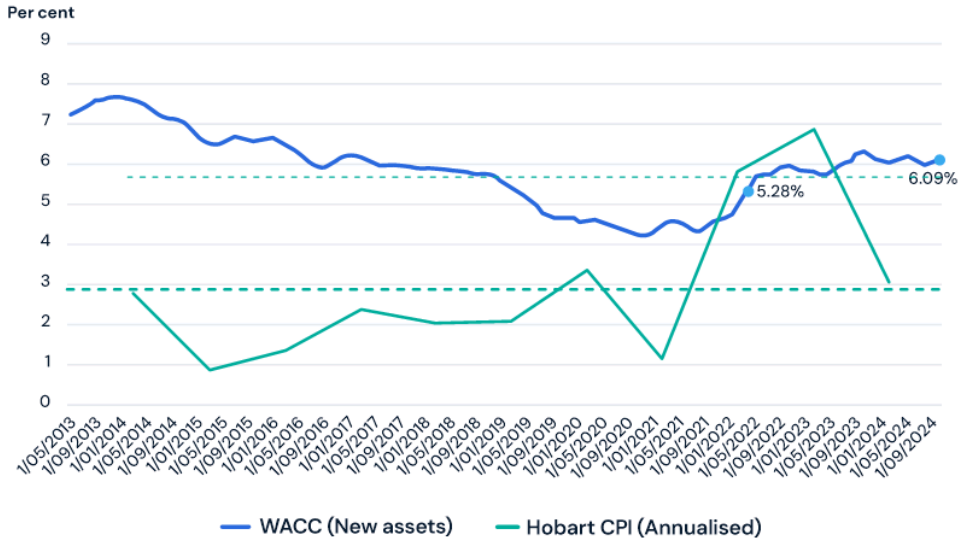
The PSP4 price determination came at a time when our WACC was below the long-term average (at 5.28 per cent for new assets and 3.79 per cent for existing assets) and inflation was above long-term averages (forecast at 3.31 per cent per annum across the PSP4 period). This is illustrated in Figure 7.3.

Figure 7.2. Our proposed revenue requirement for the PSP5 period, $M



60 The weighted average cost of capital is based on a blend of cost of debt and cost of equity based on accepted regulatory principles. Our WACC proposal is provided in *Chapter 11. Other elements of our proposed revenue requirement.*

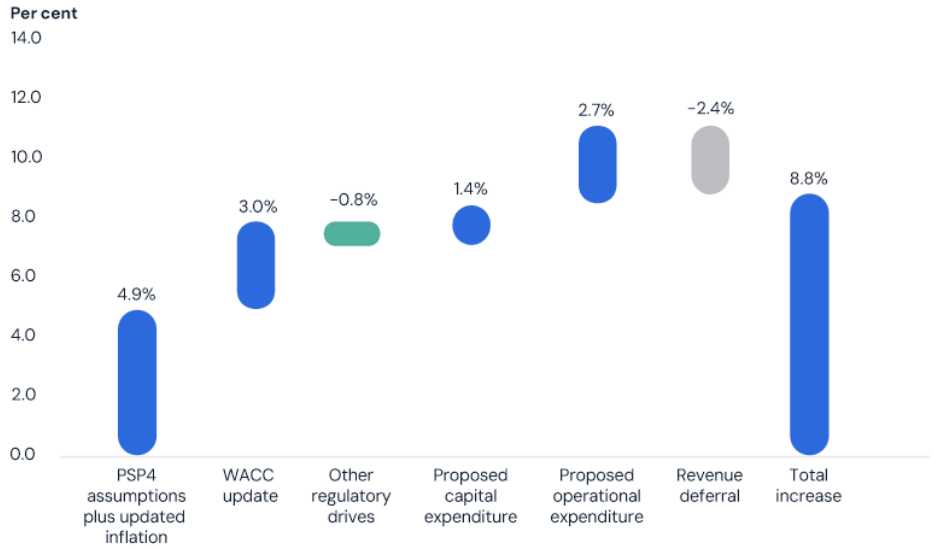
Figure 7.3. Long-term averages for WACC and inflation



Since 2022, external economic conditions mean that WACC has increased and inflation has reduced toward long-term averages. Both of these movements place upward pressure on price. An increase in the WACC will increase the allowance required by us to finance our capital expenditure over time. A decrease in inflation reduces the 'inflationary gain' deduction component of our NAR (refer Table 7.1 and Figure 7.2) and increases our overall net revenue requirement.

In this way, these external economic factors are a major driver of the proposed price increase, making up a 7.9 per cent of the cost reflective 11.2 per cent annual price increase (including inflation). This is outlined in Figure 7.4.

Figure 7.4. Drivers of PSP5 proposed price increase (nominal annual price increase)



7.3 We have challenged ourselves to be as efficient as possible

Ensuring our proposed capital and operating expenditure is as efficient as possible is the main way we can keep pressure off customer bills. We have therefore challenged ourselves to be as efficient as possible in the development of this PSP5 Proposal.

We have the inherent challenge of operating more assets per customer and per kilometre than our interstate peers, resulting in poor economies of scale. Recognising this, we have placed a greater emphasis on our long-term planning to invest in our asset base with reference to the lowest total cost solutions. In developing our capital and operating plans, we have:

- Planned, prioritised and budgeted with discipline
- Prioritised investment to meet customer expectations and regulator commitments, applying a risk-based approach where appropriate.

In addition, we have set ourselves the challenging efficiency targets of 1.0 per cent per annum for our operating expenditure and $100 million (or 6.0 per cent) for our capital expenditure for the PSP5 period.

In the longer term, we have commenced investing capital to rationalise and upgrade our assets base, finally moving us toward modern and efficient water and sewerage systems that improve economies of scale and value for customers.

7.4 We are proposing to defer revenue to PSP6 to limit price impacts

We understand that our proposed price increase will impact on our customers. Our customers have told us that affordability remains one of their highest concerns.

Our underlying price increase, when our cost-reflective revenue requirement (NAR) is calculated, is 11.2 per cent per annum (including inflation) for the PSP5 period. This price path also results in comparatively lower forecast price in PSP6, at approximately 0 per cent price per annum increases, based on the information we have today.

Based on affordability concerns of customers, we have taken the approach to propose prices under the cost-reflective revenue level, and to defer recovery of $113.6 million revenue until the PSP6 period. This has the effect of reducing price increases in PSP5 to 6.1 per cent, plus 2.7 per cent inflation (8.8 per cent) per annum. This will increase the forecast price increase in PSP6 from 0 per cent per annum to approximately 5.4 per cent per annum (including inflation).
This is outlined in Figure 7.5. In this way, the revenue deferral proposal effectively 'smooths' the price increases over a longer period of time.

Figure 7.5. Cost reflective price path and proposed revenue deferral price path (including inflation)

We tested this proposal with our Water Future Community Advisory Panel in May 2025. As outlined in *Chapter 3 Our collaborative approach with customers*, the results were mixed from this engagement, with preferences expressed for either option.

Our proposal is to set price increases at 6.1 per cent, plus 2.7 per cent inflation (8.8 per cent) per annum, lower than the cost reflective 11.2 per cent per annum (including inflation).

Our proposal contains the following elements:

- To defer recovery of $113.6 million of our proposed NAR until PSP6.
- The revenue deferral to be applied by entering the deferred revenue into the RAB.
- The $113.6 million of deferred revenue is the accumulated annual shortfalls over PSP5 (NAR less revenue, in absolute terms). This would enter the RAB as a clearly identified separate 'new asset' from PSP6.
- From year one of PSP6 onwards we would receive a return on 'asset' which would cover the financing costs of the revenue deferral (i.e. TasWater will receive the regulated return on this 'asset' from year one of PSP6).
- The deferred revenue amount of $113.6 million is then fully recovered via prices over the four years of the PSP6 period.

The revenue deferral proposal and the cost reflective price path are illustrated in Table 7.2.

The proposal to defer $109.6 million of revenue results in proposed PSP5 price increases of 6.1 per cent, plus 2.7 per cent inflation (8.8 per cent) per annum. The revenue from prices that results from this price path, relative to a cost reflective price path of 11.2 per cent per annum (including inflation), is provided in Table 7.2.

We understand that our proposal to defer the recovery of this revenue will place upward pressure on prices in PSP6. We believe that the proposal best achieves the longer-term objective of recovering prudent and efficient costs, while also mitigating the short-term price shock that would be associated with the 11.2 per cent cost reflective price increase. Further information about the impacts of our PSP5 proposal on customers is provided in *Chapter 16. What the proposed prices mean for our customers and how we will support them.*

We believe that the approach of recovering the deferred revenue via the RAB remains consistent with the pricing principles outlined in the *Water Management Act 2008*, specifically that we be provided with a reasonable opportunity to recover the efficient costs incurred in providing a regulated service.

Table 7.2. Cost reflective price path and proposed revenue deferral price path, $M nominal

	FY27	FY28	FY29	FY30	PSP5 Total
Notional Allowable Revenue	513.7	543.3	575.9	605.5	**2,238.4**
Revenue under 11.2% pa cost reflective price path	470.0	526.7	590.2	661.4	**2,248.4**
Proposed revenue under 8.8% pa price path	460.1	504.6	553.3	606.8	**2,124.8**
Revenue deferral	53.6	38.7	22.7	-1.3	**113.6**

8. Our efficient capital costs

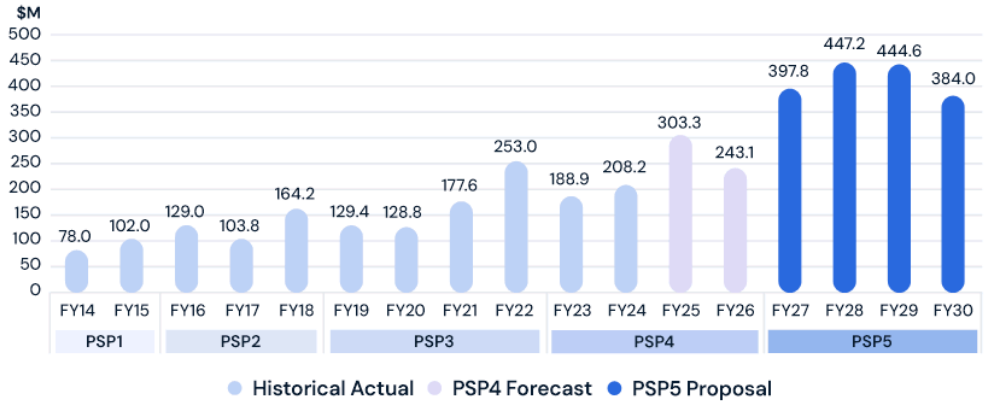
Our capital expenditure proposal

- We propose to undertake $1.7 billion of capital expenditure, but only recover $1.6 billion from our customers during the PSP5 period.
- Our proposed capital expenditure will address performance gaps to meet customer expectations and put us on the path to meeting our regulatory obligations.
- Our proposed capital expenditure is is 77 per cent higher than what we forecast to be delivered in PSP4, reflecting the growing need for investment.
- We have demonstrated through PSP4 we can deliver what we promise.
- We have carefully planned and prioritised our capital expenditure forecast. We have also applied a $100 million capital efficiency target on ourselves, backing our capital delivery frameworks to support an improved performance relative to current forecasts.
- Our capital expenditure program reflects the key requirements and the key themes of our customer engagement:
  - Improving environmental outcomes ($655.8 million)
  - Improving the performance of our water and sewer networks ($416.1 million) and reducing leaks ($100.6 million)
  - Improving water security, including addressing dam safety risks and supporting growth ($367.7 million)
  - Other important outcomes to meet our regulatory obligations or customer expectations such as maintaining water quality ($65.1 million) and investing our information systems to address risks and compliance ($68.3 million).
- Our capital delivery capability is now proven and will support the realisation of greater efficiencies in our capital delivery in PSP5.
- Over 54 per cent of our capital expenditure proposal is to meet drinking water, environmental or dam safety regulatory requirements.

This section of our submission outlines the capital investment required to deliver the customer and environmental outcomes we are committed to, including:

8.1 We propose to invest $1.7 billion in PSP5, yet will only recover $1.6 billion from customers.
8.2 Our capital plan will address under-performing assets and improve customer and environmental outcomes
8.3 We have balanced risk and cost to develop our proposed capital expenditure forecasts
8.4 We must invest, but will do so as prudently and efficiently as we can
8.5 We have made significant progress in PSP4
8.6 How we will deliver our capital expenditure efficiently in PSP5

Figure 8.1. PSP4 and PSP5 actual and proposed capital spend in PSP5, $M excluding external funding



8.1 We propose to invest $1.7 billion in PSP5, yet will only recover $1.6 billion from customers

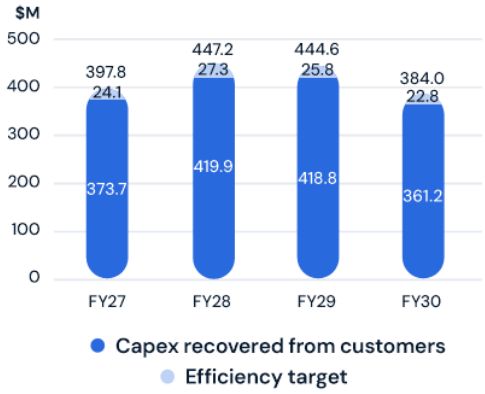
Our proposed capital expenditure forecast for the PSP5 period represents a 77 per cent increase from the capital investment program to be delivered in PSP4. It will address our under-performing assets and deliver a step-change towards meeting customer expectations and regulatory obligations.

These foundational investments are required to start now, commencing a multi-PSP period strategy to address our challenges. Further delays will risk our ability to meet our regulatory obligations and customer expectations at the lowest community cost possible. Deferring necessary works into PSP6 and beyond would cost more in the long-term, which means our customers will ultimately have to pay more. In many cases, deferring these works would also be be unacceptable to our technical regualtors and pose unacceptable risks to our customers and the community. These outcomes are not in the interests of our customers.

Our proposed capital expenditure over the PSP5 period, relative to PSP4, is provided in Figure 8.1.

To challenge ourselves to deliver this program efficiently, we are proposing a $100 million, or 5.9 per cent, efficiency dividend. This means that while we are committing to a $1.7 billion capital program, we are only proposing to recover $1.6 billion in prices. Our capital delivery capability has a proven track record of delivering a large program, with complex projects and has robust processes for ensuring efficiency in procurement and delivery. We feel confident we will achieve this efficiency dividend despite our robust and risk-based capital forecasting methods. This is illustrated in Figure 8.2.

Figure 8.2. PSP5 Proposed spend by service



8.2 Our capital plan will address under-performing assets and improve customer and environmental outcomes

How our capital expenditure forecast supports our PSP5 deliverables and commitments

The focus of our capital expenditure program is now on sewage treatment, to improve environmental outcomes and start closing the gap on environmental compliance. We will also improve water security, which includes reducing our critical dam safety risks. More than 54 per cent of the proposed capital expenditure addresses a regulatory commitment. Our renewals program has also been increased to allocate much-needed investment into our network performance, including a focussed program of work to finally address leakage in our systems. The break-down of our capital expenditure forecast, across our key PSP5 deliverables, is included in Figure 8.3.

Our capital plan has been carefully prioritised to meet the highest investment needs in a planned and staged manner. While all projects are chosen and sequenced on their merits, there are a number of overarching themes in the PSP5 capital program, which respond to both customer feedback and regulatory requirements. These themes are outlined in Table 8.1 and detailed further in Table 8.2.

Figure 8.3. Breakdown of capital expenditure forecast across our PSP5 deliverables, $M nominal

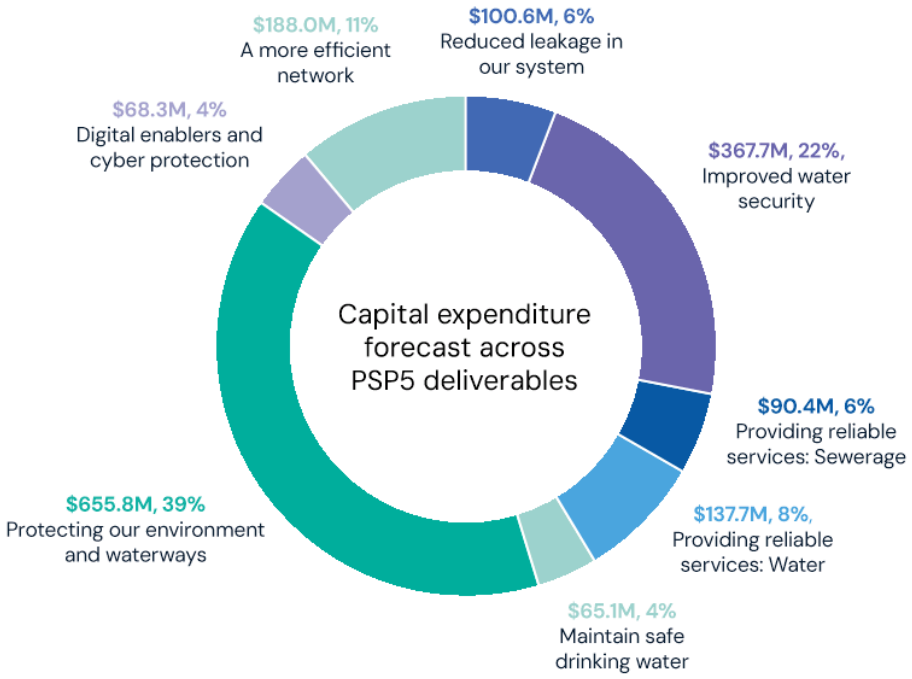


Table 8.1. How our capital expenditure forecast supports our new framework for PSP5

Customer Feedback Theme	PSP5 Deliverable	PSP5 Capital Investment
Link to our new framework for PSP5		
Fixing leaks	Reduced leakage in our systems	Reduced leakage in our system: $100.6 million
Providing reliable services and responding to faults quickly	Reduced instances of unplanned interruptions and poor service outcomes	Providing reliable services - Water: $137.7 million
	Timely response and restoration of unplanned interruptions	Providing reliable services - Sewerage: $90.4 million A more efficient network, including metering, electrical and SCADA renewals $188.0 million.
	Maintain safe drinking water	Maintain safe drinking water: $65.1 million
Protecting our environment and waterways	Reduced environmental impact	Protecting our environment and waterways: $655.8 million
Securing water for our future	Improved water security	Improved water security, including addressing key dam safety risks and enabling growth: $367.7 million
Our supporting capital investments: Required for efficiency, effectiveness and regulatory commitments		
Digital enablers and cyber protection		Digital enablers and cyber protection $68.3 million

Table 8.2. Capital program themes

PSP5 Deliverable and capital program theme	Projects involved	Investment drivers
Reduced leakage in our system $100.6 million	We have established a one-off program to target poorly performing water assets and other associated investment to reduce leakage. This is above and beyond an increase in our water mains renewals captured in providing reliable services.	This investment is based on our detailed business case and program to reduce leakage in our system. The investment will support us achieving the leakage target outlined in *Chapter 6 Our proposed outcomes and service standards*
Providing reliable services Water: $137.1 million Sewerage: $90.4 million A more efficient network, including metering, electrical and SCADA renewals $188.0 million This will support us achieving: • Reduced instances of unplanned interruptions and poor service outcomes • Timely response and restoration of unplanned interruptions	We have increased our renewal expenditure in both water and sewerage networks, aiming to address our poorly performing assets. This investment captures our key renewals programs: • Our water mains renewals program will increase 600 per cent from the approved $15.4 million in PSP4 to $95.2 million over PSP5. • Our sewer mains renewals program will increase by more than 300 per cent from the approved $8.9 million in PSP4 to $30.1 million in PSP5. • Our electrical and SCADA renewals will increase by 380 per cent, from $23.0 million in PSP4 to $87.4 million in PSP5. This renewals expenditure will be supported by a number of smaller programs and one-off projects providing critical renewals to improve our ageing assets. "A more efficient network" capital investment theme captures the remaining capital required to allow our business to function efficiently and effectively. It includes: • Electrical and SCADA renewals ($87.4 million) • Metering renewals ($45.1 million) • Fleet replacement ($15.9 million) Process innovation for improved service and environmental outcomes ($7.1 million)	The need to improve network performance is well established, including a strong focus by both TasWater and the TER in recent years of performance reporting. When benchmarked against our peers nationally, we are the worst performing major water business for non-revenue water, water mains breaks and bursts per 100km and sewer mains breaks and chokes per 100km. We have completed detailed analysis and business cases to support a significant increase in investment in our pipeline networks. This aims to move us from worst performer in the nation, toward the median performance for these measures. The need to renew our networks was a very strong theme that we heard from customers in our customer engagement and by TER in their State of the Industry Report. The Water Future Advisory Panel nominated "proactive infrastructure management and maintenance" as one of their seven recommendations.
Maintain safe drinking water $65.1 million	The key projects in this capital project theme will see us continue to lower drinking water quality risk in our systems across Tasmania. In particular this includes • Regional Towns Stage 4 Project ($13.5 million) for upgrades in Bothwell, Oatlands, Franklin and Dover. • St Mary's Water Quality Improvement Program ($10.0 million). • Investment in UV treatment and catchment works for Hobart's Mountain Catchment ($9.8 million) • Renewal of floating membranes in drinking water storages in North-West Tasmania ($9.4 million)	This investment provides for us to meet our drinking water quality regulatory commitments and maintain our record of 100 per cent microbiological compliance.

Table 8.2. Capital program themes continued

PSP5 Deliverable and capital program theme	Projects involved	Investment drivers
Protecting our environment and waterways $655.8 million	This investment focusses on the Hobart Sewerage Improvement Project and Launceston Sewer Transformation Project with foundational investment at Selfs Point and Ti-Tree Bend sewage treatment plants ($31.5 million and $355.5 million respectively). We will commence further work in greater Launceston, on the Hobblers Bridge ($24.8 million) and Prospect Vale ($20.7 million) sewage treatment plants, which will eventually be rationalised as part of Launceston Sewer Transformation Project. We will also target other high environmental risk sewage treatment plants, such as Smithton ($23.2 million), Cambridge ($16.6 million), Sorell ($20.3 million) and Bicheno ($16.6 million).	These investments must be made to improve our environmental compliance against our regulatory commitments contained in our Wastewater Risk Management Plan. This must commence in the PSP5 period, otherwise an even larger burden will be passed on to the next generation. Improving environmental outcomes was supported strongly by our customer engagement, with strong willingness to pay exhibited in the Bill Simulator and improving environmental outcomes being a recommendation of the Water Future Community Advisory Panel.
Improved water security, including addressing key dam safety risks and enabling growth $367.7 million	This will make critical investments to secure our drinking water for the future and address critical dam safety risks. The largest projects included in this theme include our dam upgrades, in particular Ridgeway Dam ($143.8 million) and Pet Dam ($97.1 million) which are over the ANCOLD limit of tolerability. These are very important investments to demonstrate progress against our obligations as dam managers. We are also making some important investments in water security, including raw water storage upgrades in Mathinna, Scottsdale and Tunbridge.	This is based on our regulatory commitments to maintain safe dams, as outlined in our agreed Dam Safety Management Plan with the Dam Safety Regulator. We are also aiming to improve the percentage of customers impacted by water restrictions caused by lack of water security.
Our supporting capital investments: required for the efficiency, effectiveness and regulatory commitments		
Digital enablers and cyber protection $68.3 million	This investment is focussed on core system upgrades to limit risk and allow us to keep the lights on ($26.5 million), standard hardware upgrades ($25.8 million) and cyber protection ($8.4 million)	This investment focusses on upgrading and replacing core systems that are required for us to operate. This investment also includes our cyber security requirements under the SOCI Act.

Our top 10 projects

The top 10 projects of the proposed PSP5 capital expenditure forecast are provided in Table 8.3. The top 10 capital expenditure programs are provided in Table 8.4. The top 10 projects total $785 million, or 47 per cent, of the total capital program. The top 10 programs total $440.9 million, or 26 percent, of the total capital program. Together, they constitute $1,225.9 million (73 per cent) of the total $1.7 billion plan. Project costs provided only relate to capital expenditure in PSP5 period, net of external funding.

Table 8.3. Top 10 PSP5 projects by spend, $M nominal

#	Project name	PSP5 Deliverable	Region	PSP5 Capital ($M)
1	LST #1 – Ti Tree Bend Sewage Treatment Plant Upgrade	Protecting our environment and waterways	North	355.5
2	Hobart - Ridgeway Dam Upgrade	Improved water security	South	143.8
3	Burnie - Pet Dam Ridgley Safety Upgrade	Improved water security	North West	97.1
4	Hadspen and Carrick to Longford Pipeline - MVSS	Protecting our environment and waterways	North	34.2
5	Selfs Point Sewer Transformation	Protecting our environment and waterways	South	31.5
6	ICT Major system upgrades and enhancements	Digital enablers and cyber protection	Statewide	26.5
7	ICT Infrastructure and end-user hardware	Digital enablers and cyber protection	Statewide	25.8
8	LST #3 – Hoblers Bridge STP Rationalisation	Protecting our environment and waterways	North	24.8
9	Smithton - STP Recycled Water Scheme	Protecting our environment and waterways	North West	23.2
10	Oatlands - Blackman River Dams Upgrades	Improved water security	Central	22.6
Total				**785.0**

Table 8.4. Top 10 PSP5 programs by spend, $M nominal

#	Program Name	PSP5 Outcome	PSP5 Capital ($M)
1	Water Efficiency Program – NRW reduction and Scheme Improvements	Reduced leakage in our system	100.6
2	Water Main Renewals	Providing reliable services: Water	95.2
3	Electrical and SCADA Renewals	A more efficient network	87.4
4	Metering Renewals	A more efficient network	45.1
5	Sewer Main Renewals	Providing reliable services: Sewerage	30.1
6	STP Renewals	Providing reliable services: Sewerage	25.5
7	Fleet Replacement	A more efficient network	15.9
8	WTP Renewals	Providing reliable services: Water	14.6
9	SPS Renewals	Providing reliable services: Sewerage	14.5
10	Reservoir Renewals	Providing reliable services: Water	12.1
Total			**440.9**

Our capital plan by asset class and regulatory investment drivers

The breakdown of our capital plan by product, asset class and regulatory asset driver is illustrated in Figure 8.4, Figure 8.5, Figure 8.6 and Figure 8.7. The proposed capital expenditure is split relatively evenly across water and sewerage, with water investment being driven by a smaller number of large dam upgrade projects and sewerage being driven by sewage treatment plant upgrades, in particular the commencement of Ti-Tree Bend Sewage Treatment Plant upgrade (part of the Launceston Sewer Transformation).

Figure 8.4. PSP5 proposed capital expenditure by product, $M nominal

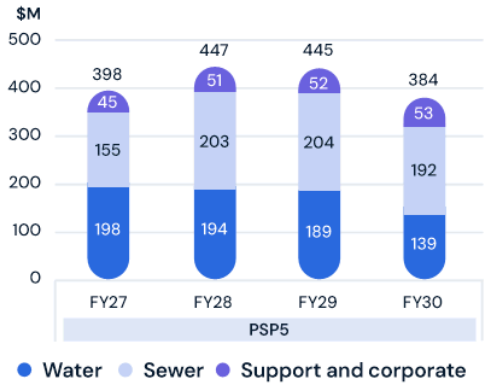


Figure 8.5. PSP5 proposed capital expenditure by asset class, $M nominal

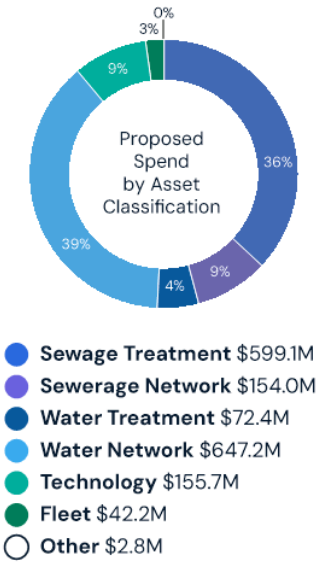


Figure 8.6. PSP5 proposed capital expenditure by investment driver, $M nominal

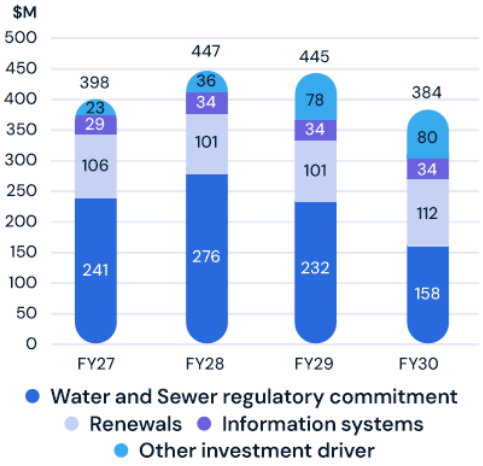
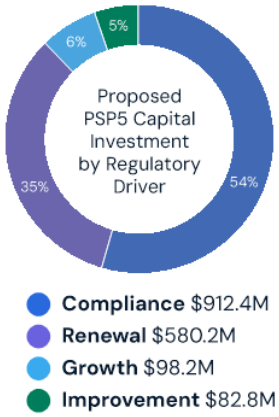


Figure 8.7. PSP5 Proposed capital expenditure by regulatory investment driver (per cent)



When viewed by the regulatory investment drivers, more than half of our proposed capital expenditure is driven by our compliance requirements to our technical regulators, as outlined in *Chapter 4 Delivering on our regulatory commitments*.

8.3 We have balanced risk and cost to develop our proposed capital expenditure forecasts

Our planning approach

We have prepared and carefully prioritised our long-term plan of capital works, to ensure customers' expectations and regulatory commitments can be achieved.

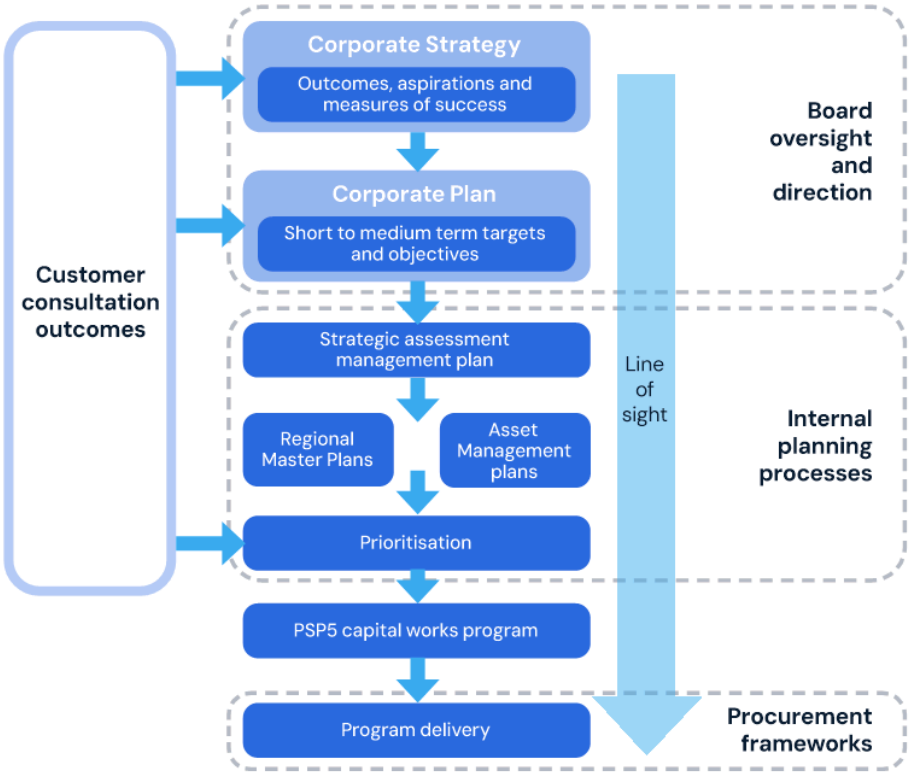
The PSP5 capital program is underpinned by our Strategy, which sets the overarching direction for our organisation and our allocation of resources and investment over the long-term.

Our strategy establishes a range of strategic customer and environmental aspirations over a 50-year horizon. For example, the long-term environmental goals associated with our 'Healthier Environment' strategic aspiration include our aspirations to achieving net zero greenhouse gas emissions and zero waste to landfill, and ceasing discharge of nitrogen and phosphorous to receiving waterways by achieving 100 per cent beneficially re-used recycled water.

Our long-term strategy informs our strategic asset management plan. Underneath this in the planning hierarchy there are a number of key planning processes that drive the development of our capital works program, as outlined in Figure 8.8.

Importantly, our capital works program was iteratively developed through a process of testing with, and being then informed by, our customer engagement, ensuring that our proposed investment supported the key customer outcomes identified.

Figure 8.8. PSP5 capital program development chart



The capital works program is driven by a number of key processes that inform where investment is required, including:

- Asset Management Plans that are based on asset condition and performance as a basis.
- Our regulatory commitments as outlined in the annual updates to the Drinking Water Quality Management Plan, the Wastewater Risk Management Plan and the Dam Safey Management Plan.
- Our Regional Master Plans that consider strategic investment drivers such as growth, climate change, water security, opportunities for rationalisation and stakeholder views, among other investment considerations.

We recognise that these long-term plans may need to change over time. We apply adaptive planning principles to cater for these circumstances. Our adaptive planning approach is based on the identification of:

- Strategic investment options which are tested in a range of scenarios.
- Events or triggers that may require a change of plan.
- A path of 'no regrets' for staged and incremental investments.

Our capital works program is built on these principles, targeting projects that address our highest risks, the greatest customer or environmental benefits, at the least net present cost.

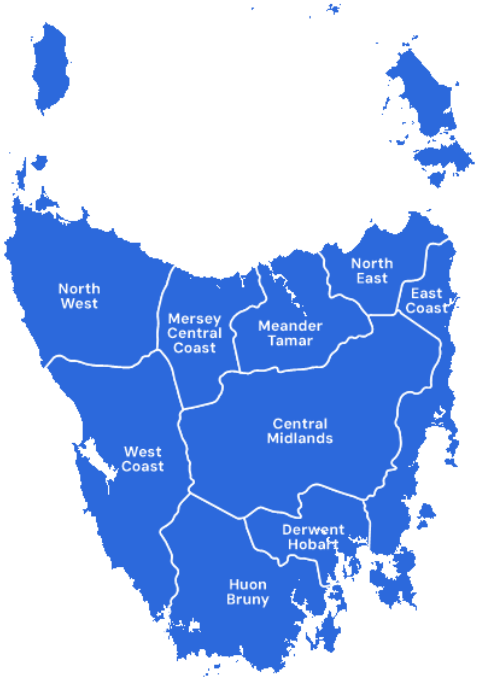
Importantly, our capital expenditure program and its outcomes were developed iteratively in parallel with our PSP5 customer engagement, whereby the insights drawn from customer engagement heavily informed and influenced the final focus of the proposal. The combination of primary quantitative and qualitative customer feedback supported our development of the key priorities within the capital works program, highlighted by strong customer support for improving environmental outcomes and fixing leaks in our network.

We then integrated and tested these outcomes with medium and long-term price and financial modelling, to allow for final decision-making on the balance of cost (customer affordability) and service outcomes achieved (or risks mitigated).

A new approach for long-term planning in our regions

Regional Master Plans have been developed across nine geographic areas statewide to plan for future growth in Tasmania (refer Figure 8.9). These plans are our 50-year vision for infrastructure investment in water, sewerage, and recycled water.

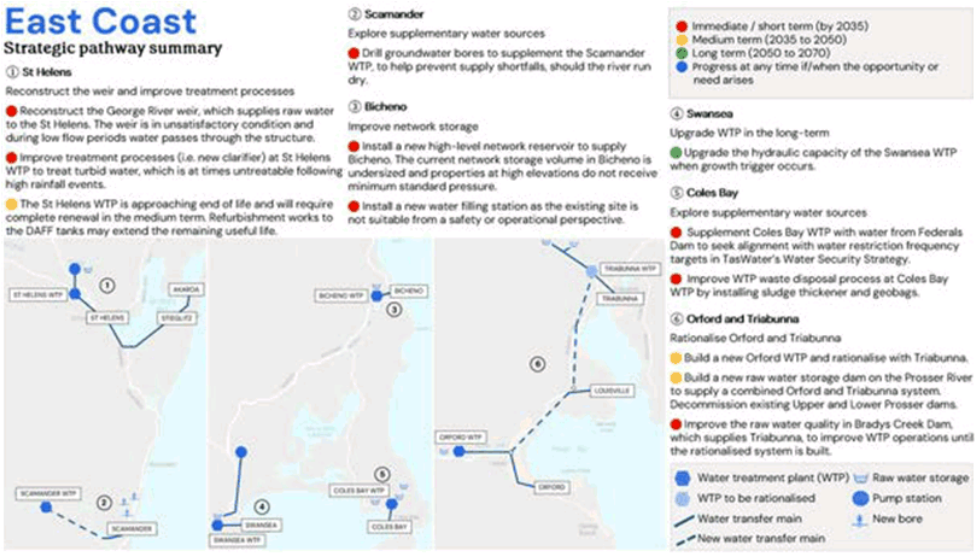
Figure 8.9. Our regional master plan regions

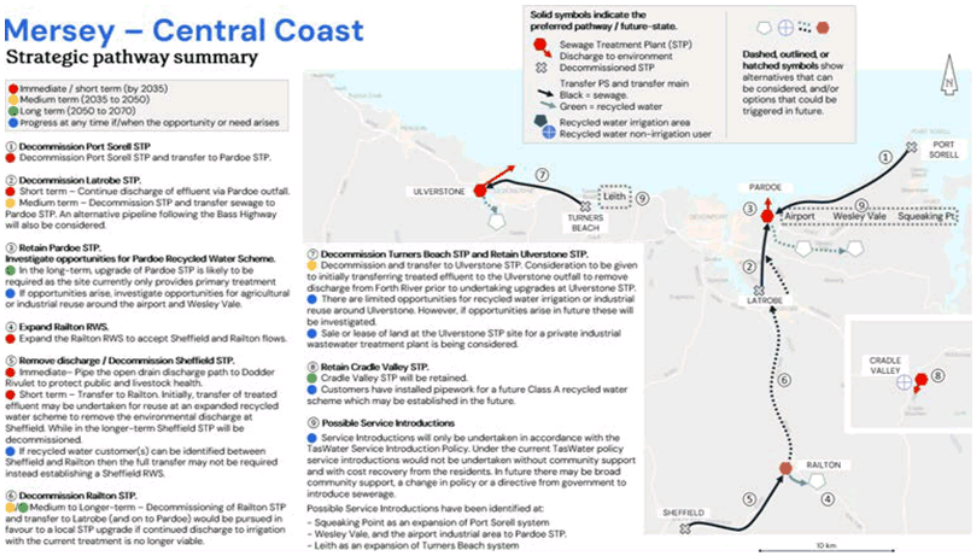


The boundaries consider council areas, population, availability of water, the existing network, economic growth and industry investment potential.

The master plans include details such as analysis of system capabilities, supply and demand forecasts, expected climate change impacts, proposed short, medium and long-term

Figure 8.10. Examples from the master plans





infrastructure strategies, financial implications, and emerging concerns and risks to be monitored.

We identify the potential for development across the entire state and a plan to provide additional capacity required to service projected growth.

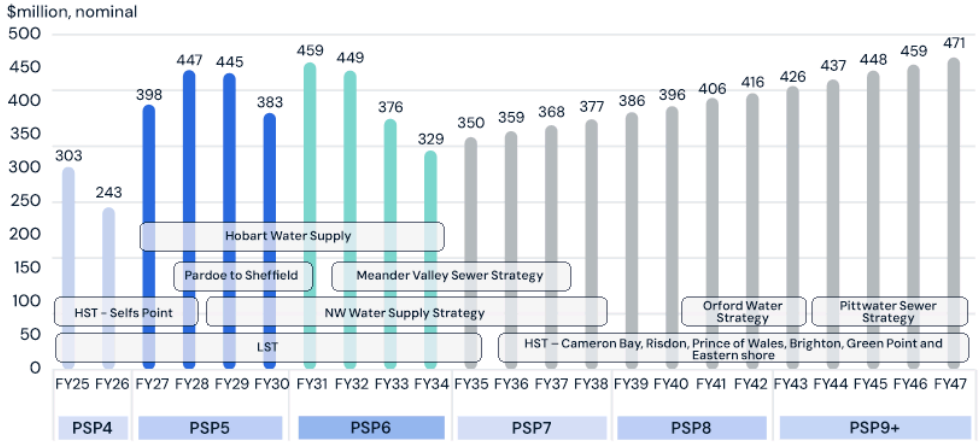
The regional master plans also identify future preferred system configurations including asset rationalisation, interlinking systems, building capacity, improving treatment, and optimising our existing systems. The master plans set out steps toward achieving our strategic targets and allow us to prioritise our works.

Our regional master plans were developed in preparation for PSP5, establishing core infrastructure requirements. Examples are provided in Figure 8.10, and the regional master plans have been provided as supporting information to the PSP5 proposal.

Our planning approach

In order to develop a PSP5 proposed capital expenditure forecast, we have also prepared a long-term plan, reflecting our regional master plan inputs. The long-term plan ensures we can meet customer expectations and environmental outcomes over a longer horizon. Given the size of the challenge to address our poorly performing assets, this is important in our planning, helping us stage and 'right size' the PSP5 capital investment in the context of a long-term horizon. As can be seen, a number of projects will commence in PSP5 that are foundational for future periods, including Selfs Point and Launceston Sewer Transformation projects, which are foundational for the future of the Hobart and Launceston sewerage systems. In PSP5, we have also uplifted and reset the investment we make in renewals, getting it to a level where we can improve our service outcomes. A summary of our long-term plan is provided in Figure 8.11

Figure 8.11. Long-term capital plan, $M nominal



8.4 We must invest, but will do so as prudently and efficiently as we can

A whole-of-system approach to planning has been applied in order to meet current and future service levels at least cost. Our whole-of-system planning considers non-traditional investments could include, but are not limited to, investment that supports:

- Increased beneficial re-use of recycled water
- Higher value end-use of biosolids
- Biogas capture and energy generation
- Improved catchment and integrated water management practices
- Other innovative solutions that avoid traditional cost intensive solutions

TasWater has considered these options in its capital planning processes, seeking to find better overall environmental and customer outcomes a lower net customer cost. An example of a whole-of-system, innovative approach that we are currently trialling is floating wetlands. The floating wetlands are a low-cost, nature-based solution to improve sewage treatment. The early results of this trial are promising, improving environmental outcomes which would, in the long-term, defer or reduce the need for a traditional, capital-intensive solution (refer Floating Wetlands case study on page 138).

In PSP5, we are proposing to invest in recycled water schemes adjacent to the Smithton ($23.2 million) and Bicheno ($16.6 million) sewage treatment plants. The recycled water schemes will divert sewage effluent from its sensitive receiving waters and replaces the need to invest in a much more expensive marine outfalls in order to meet the environmental licence obligations at each site. In this way, taking a whole-of-system approach results in better environmental outcomes at a much lower community cost.

Case study: Floating Wetlands

In 2023, TasWater committed to ambitious new environmental targets to reach net zero nutrients released to the environment by 2050. To achieve this target, TasWater is looking at innovative nature-based solutions to reduce the nutrients discharged to waterways through improved wastewater treatment. The nutrient uptake efficacy of natural systems is well known, indicating that there may be alignment in using these solutions in wastewater treatment.

TasWater owns and operates 58 lagoon sewage treatment systems. Many of these do not have any additional land available for future expansion requirements and some do not have access to power. Additionally, many of these plants are located remotely across the state with limited operational input available. Consequentially, upgrading many of these plants with traditional sewage treatment infrastructure such as mechanical package plants will require high capital expenditure and increase the operational expenditure required.

Constructed floating wetlands are artificial, vegetated platforms that float on water surfaces, designed to mimic natural wetlands. They work by supporting plant growth on floating structures, where roots extend into the water, providing a surface for microbial communities that help break down pollutants. These systems also absorb excess nutrients like nitrogen and phosphorus.

In December 2024, TasWater completed the commissioning of a two-year, full-scale pilot project utilising constructed floating wetlands at three separate sewage treatment lagoons (Fingal, Ross and Western Junction sewage treatment plants). The purpose of the pilot project is to investigate the nutrient removal efficacy and assess the application of constructed floating wetlands in wastewater treatment in Tasmania. We're aiming to reduce the levels of nitrogen and phosphorus discharged to the environment by 40-60 per cent. We will also be partnering with the CSIRO to determine the effectiveness of the wetlands at reducing PFAS concentration.

Over the summer of 2024-2025, TasWater's constructed floating wetlands have been thriving. The plants selected are all Australian native wetland species known for high levels of nutrient uptake. All three sites have had excellent plant establishment with rapid growth of the plants. Fingal Sewage Treatment Plant has already observed reductions in nutrient discharges in line with target objectives. Plant harvesting has occurred at Fingal and Ross sewage treatment plants this year.

We have commenced a strategic program of asset rationalisation

Our asset planning and delivery frameworks have been significantly improved over the last four years.

We have completed regional master plans, which tested the strategic options for rationalising and modernising our water and sewerage systems across nine water and nine sewerage service areas. These plans outline the strategic options that represent the greatest net present value to customers and, therefore, provide a roadmap for future investment that will deliver the best long-term benefits to customers. They consider the needs for growth, water security, customer service standards, and environmental compliance outcomes. Considering the most efficient path to meet minimum standards over time.

For example, over the PSP5 period, we will commence the Launceston Sewer Transformation, which will in time see seven sewage treatment plants in greater Launceston rationalised into one at Ti-Tree Bend (Figure 8.12). While it will take multiple PSP periods to complete, this is the most efficient course of action as it will improve economies of scale and lower costs per customer.

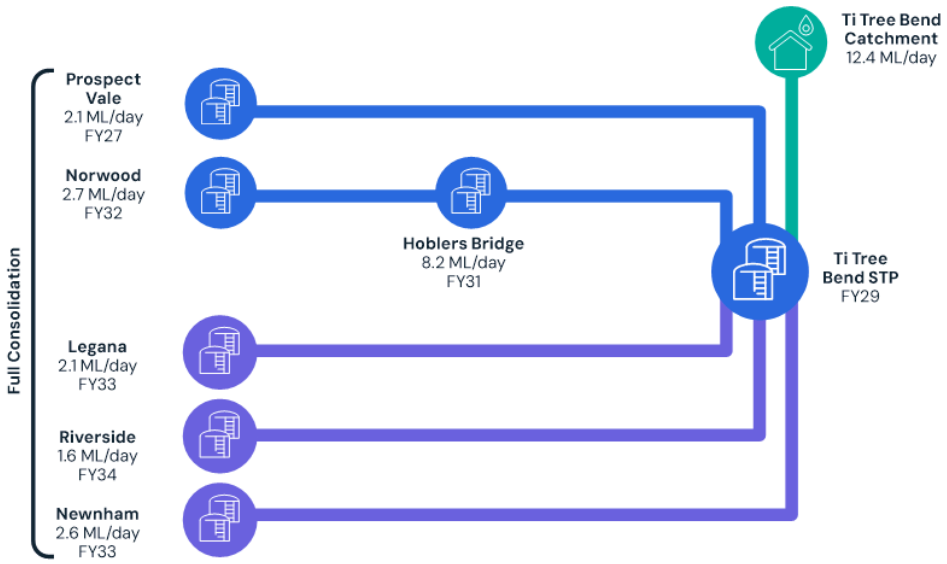
All the capital expenditure that we have proposed over the PSP5 period aligns with the long-term, value-for-money approach set out in our Sewage Treatment Plant.

We have applied a robust and risk-based prioritisation process

Those capital projects that we consider necessary over the PSP5 period, in accordance with our long-term plans, have each been subject to our robust and risk-based approach to forecasting capital expenditure – as set out in *Chapter 8. Our efficient capital costs.*

We have prioritised PSP5, acknowledging that we cannot address all of our performance gaps in the PSP5 period. To stage the investments prudently over time, we have prioritised a 50-year capital forecast. We have done this within a deliverable

Figure 8.12. Launceston Sewer Transformation schematic



capital envelope that remains relatively constant over time (with inflation). We believe this envelope will allow us to deliver the required service levels to customers, while keeping customer bills at reasonable levels and allowing us to remain financially sustainable.

We have then applied a risk-based approach to work within this envelope as best we can. For example, our preliminary planning estimate of the Launceston Sewer Transformation has been staged over multiple PSP periods, lowering its impact on PSP5 prices, while still making sufficient progress towards customer and environmental outcomes. Our prioritisation focusses on the 'high-risk' items across our service portfolio.

We have a value-based approach to capital delivery that maximises efficiency

Our capital delivery model has successfully delivered more than $1.0 billion of capital investment over the past six years, proving we are capable of the large-scale capital delivery program set out in our PSP5 Proposal. We are on track to deliver the $1.7 billion of capital expenditure we committed to delivering between 2017 and 2026 in the 2018 Memorandum of Understanding between TasWater and the State Government[61].

Our capital delivery arrangements have been subject to efficiency measures over this period. For example, the role of the client cost estimator to independently examine and test the project cost estimates. In its PSP4 Final Report, the TER and its expert consultant generally reflected favourably on the efficiency of the capital delivery arrangements[62].

This drive for efficiencies has continued over the PSP4 period.

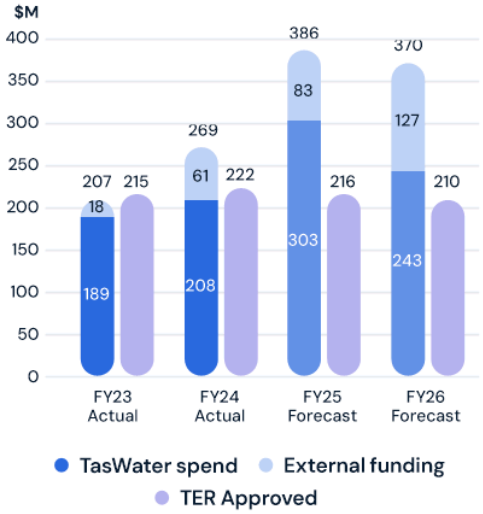
As we turn to the PSP5 period, we are preparing to further improve our new capital delivery frameworks, with the aim of delivering our capital delivery program in the most fit-for-purpose and efficient way.

To reflect our appetite to deliver capital efficiently, we have proposed a $100 million (or 6.0 per cent) capital efficiency target. In practice, this means that we are aiming to deliver our $1.7 billion capital plan for $1.6 billion, through careful planning and utilising our new delivery frameworks to drive further capital efficiency.

8.5 We have made significant progress in PSP4

Our current forecast for capital investment in the PSP4 period is $943.4 million, 8.7 per cent higher than the approved $861 million approved in the PSP4 determination. In this period, we significantly increased our capital delivery capability, successfully delivering record levels of capital investment as outlined in Figure 8.13.

Figure 8.13. PSP4 Actual and forecast capital expenditure



61 The 2018 Memorandum of Understanding between TasWater and the Tasmanian State Government outlined the agreement for the State Government to invest $200 million in TasWater and become a 10 per cent shareholder of TasWater, as well as TasWater's agreement to cap prices at 3.5 per cent per annum until 2025-26.
62 Tasmanian Economic Regulator: 2022 Water and Sewerage Price Investigation – Final Report. Chapter 4. Capital Expenditure.

The PSP4 Price Determination occurred in early 2022, when the Tasmanian economy was in a state of transition from the impacts of COVID-19. The TER's final determination was to allow for 95 per cent of our proposal, owing to concerns over TasWater's ability to deliver such a large program. However, TasWater has demonstrated it can deliver a large and complex capital program through PSP4; processes we expect will continue in PSP5.

Since the start of PSP4, we have experienced a significant increase in our construction input costs, due to macroeconomic conditions. This has been a challenge faced by all utilities across Australia.

Progress against the major projects for PSP4 is summarised in Table 8.5.

Table 8.5. Progress of major projects proposed in PSP4

What we proposed in PSP4		Progress in PSP4	
Upgrade of Bryn Estyn Water Treatment Plant	$56.9 million	We successfully delivered the major upgrade of the Bryn Estyn Water Treatment Plant in 2023 for a total cost of $243.9 million.	$227.2 million ($76.1 million within PSP4)
Tamar Estuary River Health Action Plan	$31.4 million	This project is in its final stage of delivery. Its total cost is expected to be $129.2 million, funded jointly by TasWater, the Australian Government, Tasmanian Government and the City of Launceston. The project will improve the operation of Launceston's combined system (which manages the flow of both sewage and stormwater) and will help to divert sewage and stormwater flows away from the Kanamaluka/Tamar estuary, reducing the frequency and volume of overflow events.	$129 million ($35.5 million funded by TasWater)
Selfs Point Sewer Transformation (including the Macquarie Point relocation)	$60 million	The Selfs Point Sewer Transformation will rationalise and improve sewage treatment in Hobart. This project includes an upgrade to Selfs Point sewage treatment plant and decommissioning of Macquarie Point sewage treatment plant. It is significantly progressed and will be mostly complete by the end of the PSP4 period.	$380 million in total ($156 million funded by TasWater, with $109.3 million in PSP5)
North-West Water Supply Strategy (NWWS)	$76.25 million	The NWWS aims to provide water surety, ensure safe drinking water, improve dam safety and mitigate flooding risks in the three water supply systems of Forth, Gawler and Leven. We are currently in the process of developing the business case for the NWWS. We received $4.6 million Federal Government funding through the National Water Grid to contribute 50 per cent to the development of the detailed business case for the NWWS.	$4.6 million (with a further $4.6 million funded by the National Water Grid)

We have completed, or will complete, a number of other key projects across the state that have been prioritised within the PSP4 period. These include:

- Regional Water Supply Program Stage 4 ($45.2 million, approved PSP4 allowance $59.0 million), delivering upgraded drinking water quality to eight towns.
- Water mains renewals ($60.9 million, approved PSP4 allowance $11.6 million)
- Ulverstone Sewage Treatment Plant upgrade ($19.9 million, approved PSP4 allowance $10.9 million)
- Smithton Sewage Pump Station upgrade ($17.5 million, approved PSP4 allowance $14.8 million)
- Orford Sewage Pump Stations & Network upgrade ($15.1 million, approved PSP4 allowance $5.8 million).

8.6 How we will deliver our capital expenditure efficiently in PSP5

Performance of our Capital Delivery Office

We have demonstrated that the capital delivery arrangements put in place in PSP3 through our alliance, the Capital Delivery Office (CDO), have successfully demonstrated our ability to deliver our program of works on time and on budget during PSP4.

The CDO has delivered our largest project to date, the $227.2 million Bryn Estyn Water Treatment Plant upgrade, has substantially completed the Tamar Estuary River Health Action Plan (TERHAP), and is currently in the early stages of the Selfs Point Sewer Transformation Project. The program has already delivered capital investment of $1.0 billion (inclusive of external funding of $133.5 million), through 62 projects and 21 programs. It is on track to exceed our long-term plan to deliver $1.7 billion of infrastructure between the years of 2016-17 and 2025-26, agreed as part of our 2018 Memorandum of Understanding with the State Government.

Our evolving approach to capital delivery, striving for greater efficiency

The CDO alliance agreement is in place to supply major infrastructure water and sewerage upgrades for TasWater, our stakeholders, and the communities of Tasmania until June 2025. Some projects within the CDO remit will already be in delivery at this point in time and will continue under CDO management for another year or more (for example the Selfs Point Sewer Transformation Project and remaining parts of the TERHAP Project).

Beyond the conclusion of the current CDO, we are proposing a new, fit-for-purpose capital delivery approach, to drive greater efficiency in our capital investments. Having increased our capital delivery capability as a result of the CDO arrangements, we are in the position to develop a refined approach to procurement.

We will establish seven competitive procurement frameworks to deliver the capital works program, tailored to accommodate the diverse size and complexity of the programs and projects to be delivered. The program management capability will be internal to TasWater. A description of the future delivery frameworks is provided in Table 8.6.

Table 8.6. New delivery frameworks

Nature and complexity	Delivery framework
Design	Engineering, Planning and Design Framework
Low Risk	Linear Renewals Framework (Construct Only)
	Plant and Station Refurbishment Program Meter Replacement Program
Medium Risk	Medium Projects Framework (Construct Only)
	SCADA, Electrical and Operational Technology Framework
High Risk	Major Projects Framework (Design and Construct)

9. Our efficient operating costs

Our operational expenditure proposal

- Operating costs fund the essential day to day activities of delivering water and sewerage services.
- For PSP5, we are proposing a total of $1.1 billion in operating expenditure.
- This is $242.2 million higher than what was approved in PSP4. Half of this ($124.1 million) is the impact of inflation (CPI) and growth in our customer base each year.
- When inflation is excluded, the increase in the total operating cost envelope for PSP5, relative to PSP4, is 10.5 per cent (in real terms).
- Other factors driving the remaining increase ($122.1 million) are:
  - Recovering the costs of annual and long service leave ($51.9 million over the period) which has not previously been recovered.
  - Customer connections related revenue that is offset by revenue ($28.7 million)
  - Forecasting some cost categories to increase by above inflation ($37.6 million), for example salaries ($24.6 million) which we have linked to wage growth indicators, and power ($2.8 million)
  - New operating costs required for digital and cyber security investment ($24.6 million), due to our capital investments ($11.0 million increase for Selfs Point Sewer Transformation) and investment to support vulnerable customers ($2.4 million)
- We have also removed cost from our forecast where we can, in total lowering our forecast by $82.5 million, including:
  - Allocated more costs to be recovered from unregulated customers ($36.1 million)
  - Set ourselves a 1.0 per cent per annum efficiency target, lowering operating costs by $38.3 million
  - Assumed savings from reducing non-revenue water of $8.2 million

This section of our submission outlines the operating costs we propose to deliver exceptional water and sewerage services, including:

9.1 We propose operating expenditure of $1.099 billion in PSP5 to deliver our essential services

9.2. Our method for determining opex

9.3 Base: Our base year for the PSP5 base year is efficient compared to the PSP4 allowance

9.4 Trend: We are proposing a 1.0 per cent efficiency target in our forecast

9.5 Step: Our proposed step-changes reflect our changing business needs

9.6 We seek to continually improve our efficiency over time

9.7 A summary of the base-trend-step method for operating expenditure

9.1 We propose operating expenditure of $1.099 billion in PSP5 to deliver our essential services

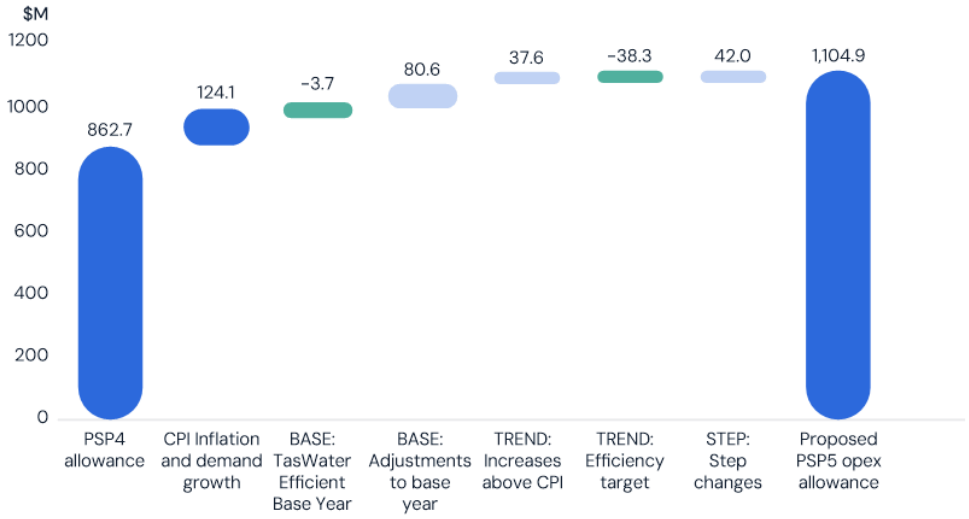
Our operating costs are an essential cost to deliver our water and sewerage services to our customers on a daily basis. Operating expenditure includes the day-to-day operating, maintenance, customer service and corporate support costs we incur. It includes managing and maintaining water storages, treatment and distribution of water and wastewater, meter-reading, customer services, billing, planning, corporate services, digital software and licences, and government and regulator fees and charges.

Our proposed operational expenditure forecast is a total of $1.1 billion over the four years of the PSP5 period. This includes a forecast of inflation (2.7 per cent per annum). This total operating cost envelope is $242.2 million, or 28.1 per cent, higher than what was approved in PSP4. When adjusted for inflation, this total increase is 10.5 per cent (in real terms). The changes in the operating expenditure forecast relative to PSP4 are provided in Figure 9.1.

The key drivers of the total $242.2 million increase in total operating expenditure over the PSP5 period are:

- An increase for CPI inflation and demand growth ($124.1 million). This allows for CPI escalation (2.72 per cent) and a demand growth factor (0.96 per cent). We have applied the same methodology for demand growth as approved in PSP4.
- An increase in our base year to recover annual leave and long service leave ($51.9 million), never before recovered, and customer connection operating costs ($28.7 million) that is offset by revenue.
- Operating cost escalation for some categories increasing above CPI ($37.6 million), predominantly made up of salaries costs ($24.6 million) as they are linked to a wage growth index.
- A 1.0 per cent per annum efficiency factor that reduces the overall operating expenditure forecast ($38.3 million).
- Step-changes in operating costs ($42.0 million), which include an increased investment in digital and technology to ensure our systems are fit for purpose and we meet our cyber security obligations ($24.6 million), new operating

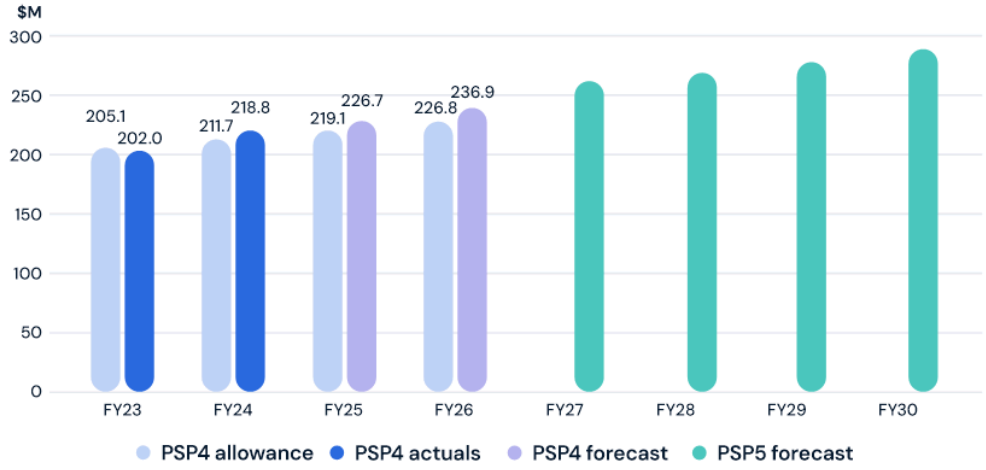
Figure 9.1. Comparison of PSP4 approved operating expenditure against PSP5 proposal, $M



expenditure from capital investments such as Selfs Point Sewer Transformation Project ($11.0 million) and investments in vulnerable customers ($2.4 million).

The total proposed operating expenditure forecast is provided in Figure 9.2.

Figure 9.2. PSP4 and PSP5 operational expenditure actual and forecast, $M nominal



9.2 Our method for determining opex

We have refined our approach to developing our proposed operating expenditure for PSP5. The base-trend-step method has been used, a generally accepted regulatory approach.

The approach provides for the following steps:

- Base: Developing a historical base year (2024-25) that reflects efficient and ongoing expenditure, excluding any one-off costs (referred to as the 'base').
- Trend: Forecasting this forward by applying cost escalation, growth and an efficiency factor (referred to as the 'trend').
- Step: Adding new or changed operating costs that are not captured in the base year or in the expected trend forecasts (referred to as the 'step' changes).

9.3 Base: Our base year for the PSP5 base year is efficient compared to the PSP4 allowance

We have used our 2024-25 financial year budgeted operating costs as the starting point for our base year. To determine the efficient costs to be recovered by regulated customers, we make the following adjustments:

- Applying an Activity Based Costing methodology to distinguish between regulated and unregulated costs, reducing our base year by $15.8 million which is allocated to unregulated activities.
- Removing one-off or non-recurrent costs, which reduced the base year by $2.9 million. This is primarily the removal of budgeted biosolids desludging operating costs which have been subsequently capitalised.

This results in a 2024-25 base year of $218.3 million. This base year is lower than the PSP4 approved allowance of $219.1 million, resulting in a more efficient outcome for customers. This is despite actual inflation being much higher than forecast in PSP4. Our actual base year expenditure reflects the strong efficiency measures we employ to control costs, which are outlined further below.

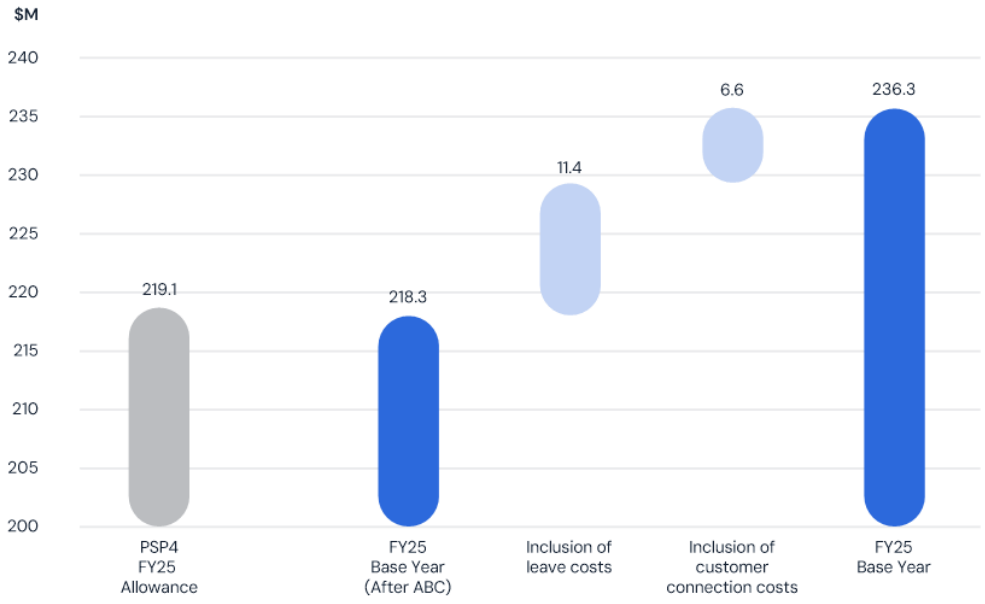
To this, we are also proposing to add for PSP5:

- Recovery of annual and long service leave ($11.4 million in the base year, $51.9 million over PSP5). It is unclear why annual leave and long service leave have not been historically included in the regulated cost base. Inclusion of these costs is accepted regulatory practice.
- Recovery of the costs of customer connections ($6.6 million in the base year, $28.7 million over PSP5), which is offset by a commensurate increase in regulated revenue. In PSP4, these where not included in the operating cost forecast, we are proposing their re-inclusion along with the revenue to offset these costs.

This takes our total 2024-25 base year to $236.3 million dollars. The base year comparison to the PSP4 approved allowance for 2024-25 is provided in Figure 9.3.

The 2024-25 actual operating expenditure will be provided to the TER by 30 September 2025.

Figure 9.3. Proposed base year compared to PSP4 and with proposed inclusion of leave costs and connection costs, $M



Activity Based Costing has allocated greater costs to unregulated customers

We applied an Activity Based Costing approach to separate our unregulated and regulated costs. This approach is more robust than the method we applied in PSP4.

It results in a larger proportion of opex being allocated to unregulated prices, reducing the costs recovered from regulated prices by $36.1 million over the PSP5 period, relative to the approach in PSP4. This represents 93.7 per cent of total operating costs being allocated to regulated services and the remaining 6.3 per cent being allocated to non-regulated services.

Table 9.1. PSP5 Base year 2024-25 determined, $M

Regulated cost categories	Total Regulated Cost	Percentage
Salaries	115.00	48.7%
Materials & Services	38.78	16.4%
Power	12.68	5.4%
Information Systems	11.46	4.9%
Chemicals	10.04	4.2%
Facility Management	9.55	4.0%
External Support	7.95	3.4%
Motor Vehicles	4.19	1.8%
Administration	4.01	1.7%
Water Sampling	3.91	1.7%
Customer Collection	3.24	1.4%
Regulator Costs	3.20	1.4%
Insurance	3.18	1.3%
Strategic Initiatives	3.11	1.3%
Royalties	3.00	1.3%
Governance	1.30	0.6%
Community Relations	1.66	0.7%
Total	**236.27**	

What is Activity Based Costing?

We have implemented a new Activity Based Costing methodology, which was as a requirement from the TER's Final Decision for PSP4. In previous regulatory submissions, to determine our regulatory operational costs we allocated a portion of the costs to unregulated services based on a 'top-down' approach which use the ratio of regulated to unregulated revenue.

The new Activity Based Costing methodology uses a 'bottom-up' cost driver approach to assign costs to specific services, processes, or activities based on actual resource consumption. An example of a cost driver is the volume of treated water produced at a water treatment plant, which is the primary driver for costs such as electricity and chemicals. In this way, operating costs can be allocated to the services that customers are charged for more accurately.

Our largest cost categories remain labour and materials and services

The base year for our operating expenditure forecast by category, after application of activity costing, is provided in Table 9.1. Our largest cost category is salaries, accounting for 48.7 per cent of operating costs in that year. This is followed by materials and services (16.4 per cent) and power (5.4 per cent).

9.4 Trend: We are proposing a 1.0 per cent efficiency target in our forecast

After establishing an efficient base year for the PSP5 operating expenditure forecast, we then forecast this through the period considering such things as output growth, real price changes, and efficiency improvements. This is referred to as the 'trend' component of the base-trend-step method and is determined by:

- Applying cost escalations to each cost category.
- Applying a demand growth escalator (growth in water connections) to 50 per cent of controllable operating categories.
- Applying an efficiency factor applied to all controllable operating categories.

All cost categories are defined as controllable operating cost categories except for royalties and regulatory costs. This is consistent with the approach in the PSP4 final determination.

The majority of our cost categories are forecast to escalate by CPI

We have reviewed each cost category to assess the most appropriate annual escalation rate for the PSP5 operating expenditure forecast. For simplicity, we have used the forecast inflation as a default assumption. We have proposed an annual escalation rate higher than CPI for salaries (wage price index), power (5.7 per cent) and insurance (4.1 per cent). The cost categories with an increase higher than CPI totals $37.6 million for the PSP5 period. The cost escalation factors are summarised in Table 9.2.

We propose to update the proposed escalation of our salaries operating expenditure to be based on the underlying increase agreed in our upcoming Enterprise Agreement, which is currently subject to Interest-Based Bargaining.

Our power operating expenditure forecast is based on contract electricity price increases and our best assumptions for other inputs such as electricity network costs increases, which will increase by more than CPI. Our insurance costs have consistently increased by CPI, consistent with market benchmarks that demonstrate that insurance premiums have increased in real terms, with a 15-year average annual growth of approximately 5.0%. Our proposed escalation blends our current premiums with the long-term average.

We have applied the same growth factor method to our operating expenditure forecast as was approved in PSP4. This is forecast growth in water connections (0.96 per cent) multiplied by 50 per cent of controllable costs.

We have challenged ourselves to remain efficient

We have proposed a 1.0 per cent operational expenditure efficiency factor within the PSP5 operating cost forecast. This efficiency factor applies to all controllable operational expenditure categories, which we have kept consistent with the PSP4 approach. This reduces the operating expenditure forecast by $38.3 million over the period. This is discussed further later in this chapter.

9.5 Step: Our proposed step-changes focus on investing in our digital capability

For each year of the PSP5 period, we have applied step-changes to our operational expenditure.

Table 9.2. PSP5 cost escalations, per cent annual change

	PSP5 cost escalation (per cent annual change)
Salaries	Wage price index and pay progression factor To be updated on completion EA negiotiation
Power	5.70 per cent
Insurance	4.13 per cent
All other costs categories (CPI inflation forecast)	2.72 per cent

The changes account for addition or removal of operating costs that will occur in the upcoming regulatory period. These are not factored in the base year or in the trend movements.

Material step-changes forecasted during the period are provided in Table 9.3.

Table 9.3. Material step-changes from base year (FY25) over the PSP5 period

Step change from base year	PSP5 total $ million	Justification
Non revenue water	(8.2)	Based on our targets to reduce leakage in our network, we expect to save money on the production of water (i.e. lower electricity and chemical costs).
Regulatory determination and submission	4.9	Cost estimate based on PSP5 forecast costs.
SOCI cyber security	4.7	We must invest in cyber security to meet our obligations.
Digital advancement	20.0	Investments in critical system upgrades.
Operating costs from new PSP5 Capital projects	11.0	This is predominantly the operating costs relating to the Selfs Point Sewer Transformation.
Supporting vulnerable customers	2.4	This investment is to strengthen our vulnerable customer program, TasWater Assist.
Customer water conservation support	0.4	Program to understand customer water use and small scale water efficient product program.
Energy contract pricing	2.0	Our contract energy pricing increased from the base year 2024-25. (in addition to a higher trend increase over the course of PSP5).
Total	**37.2**	

We must invest in digital to keep our business running

Our digital and technology capability is an essential part of our operations, supporting the efficient and effective delivery of services to customers. The management and use of our data to track and improve our performance is more important than ever. Not only essential for the running of the business, we also have rising regulatory compliance obligations to keep our and customer information safe and secure.

Over PSP4, we have completed a review of our digital and technology capabilities. The review has identified that our systems and processes are fragmented, we have low integration and automation, and we have risks to address in our critical systems. We have developed program of work for PSP5 that focused on upgrades that would address core issues for current IT systems/ processes including:

- no longer serviced by vendors
- do not meet legislative/regulatory obligations such as the SoCI Act
- require changes to maintain TasWater's digital operating environment
- improvement needed to meet basic customer expectations

The upgrades to critical systems include our finance management system (due to be completed in PSP4), our asset and operations management system, our customer management billing system and our human resources management system. These systems upgrades have been developed into a program of work for delivery over PSP5, our business case planning estimates form the basis of this proposal. Final solution design has not been undertaken for the program at this point. Our total operating cost step-change for our digital advancement program is $20.0 million over PSP5.

Like all businesses, we are challenged by the increasing trend of digital software being delivered as a service and being incurred as operating costs, where it may have been capital expenditure in the past. We have maintained

an assumption of approx. 64 per cent capital expenditure and 36 per cent operating expenditure. We note that while this estimate has been made on best available information, there is a risk to TasWater that the digital operating costs exceed this.

Our cyber security obligations are increasing

Under the *Security of Critical Infrastructure (SOCI) Act 2018*, water and sewerage systems are designated as critical sectors, mandating enhanced security protocols, risk management programs and incident reporting. TasWater is subject to Tasmanian government requirements and consistent with best practice, seeks to meet national standards such as the Australian Signals Directorate Essential Eight controls.

In an increasingly complex cyber threat environment, strengthening cyber resilience is essential to safeguarding our services and maintaining public trust. Cyber attackers are targeting the water sector at an accelerating rate—ransomware attacks on utilities rose by over 300% between 2021 and 2023, with more than one-third of operators globally reporting multiple intrusions within a single year[63]. Ageing operational technology, often not designed with security in mind, heightens the risk of unauthorised access, service disruption, and potential contamination.

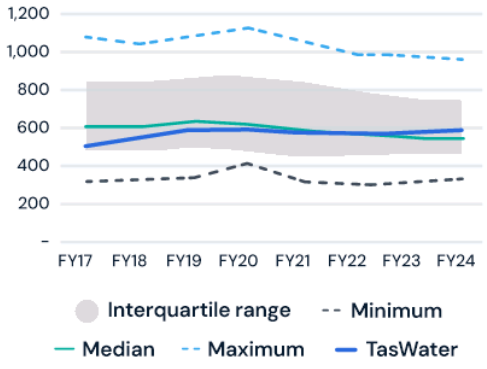
Acknowledging these risks, and in response to new legislative obligations and heightened regulatory expectations, we undertook a comprehensive cyber maturity assessment during PSP4 using the National Institute of Standards and Technology Cyber Security Framework. That review identified a gap in our maturity. Through investments in PSP4, we have now closed that gap. However, maintaining our cyber security and continuing to meet these regulatory requirements will require new investment in PSP5, totaling $4.7 million over the period.

9.6 We seek to continually improve our efficiency over time

Our operating costs reflect the infrastructure we operate and the customer base we serve, with many small water and sewerage systems dispersed across the state, a legacy of historical under-investment in assets and a small population resulting in relatively high operating costs per property.

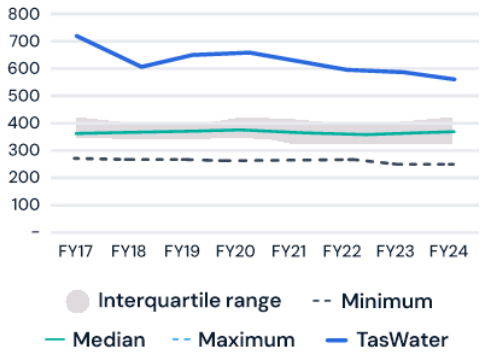
When benchmarked against other Australian water businesses our size[64], our water supply operating costs per connected property benchmark relatively well, at $592 per property, being close to the median (Figure 9.4). This would be in part be due to other large water businesses incurring the higher cost of bulk water associated with desalination plants in interstate cities. On the other hand, our wastewater services are the highest per property when compared nationally, at $572 per property (Figure 9.5). This reflects our environment and network characteristics of many small and old sewage treatment plants.

Figure 9.4. Operating costs per property: water supply ($/property)



63 Fortinet. The 2023 Global Ransomware Report.
64 Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24).

Figure 9.5. Operating costs per property: wastewater ($/property)



Our PSP5 proposal meets the PSP4 efficiency benchmark in the base year of 2024-25, being lower than the approved PSP4 allowance. We achieved these savings through careful cost control and management, in an environment of high inflation. Indeed, actual inflation has outpaced the PSP4 assumed inflation over the period, as outlined in Figure 9.6.

Figure 9.6. Forecast operating cost inflation in PSP4 compared to actual inflation (annualised), per cent cumulative

Some of the highlights of our operating efficiency over the PSP4 period are contained in Table 9.4.

Table 9.4. Operating efficiencies achieved in PSP4

We have made cost efficiency an organisational priority over the period of PSP4. Our efforts have meant that we have challenged ourselves to include the most efficient operating cost forecast possible, for acceptable risk levels for PSP5.

The result is an operating expenditure base year (2024-25) that, on a like for like basis, is lower than the PSP4 approved allowance and therefore reflects our successful achievement of the 1.5 per cent efficiency factor set in the PSP4 determination.

The focus in PSP4 has been to build a culture of cost control;

- Bottom-up budgeting: We have re-prosecuted the basis and needs for our operating expenditure at a detailed level across the business and used this information to reset budgets to more efficient levels. This includes removing risk and contingency from budgets where better risk management practices can save costs.
- Robust top-down reviews and targets: Our Board and Executive Management have a high focus on efficient budget setting. They have established and tracked top-down internal efficiency targets to ensure a cost-conscious culture. This approach has been taken to the development of the PSP5 proposed operating expenditure.
- Robust competitive procurement and market-testing: We have invested in improving our procurement capability to drive better commercial outcomes and best manage supply chain risk. We have successfully market-tested many of our major supply contracts in PSP4 through robust competitive procurement processes. We have a robust contract management framework to ensure we receive value for money.

Our operating expenditure base year (2024-25) reflects the successful achievement of over $10 million dollars in internal efficiency savings in the following two years, as a permanent reduction to our base operating costs and to ensure that the starting point for our PSP5 operating expenditure is as efficient as possible.

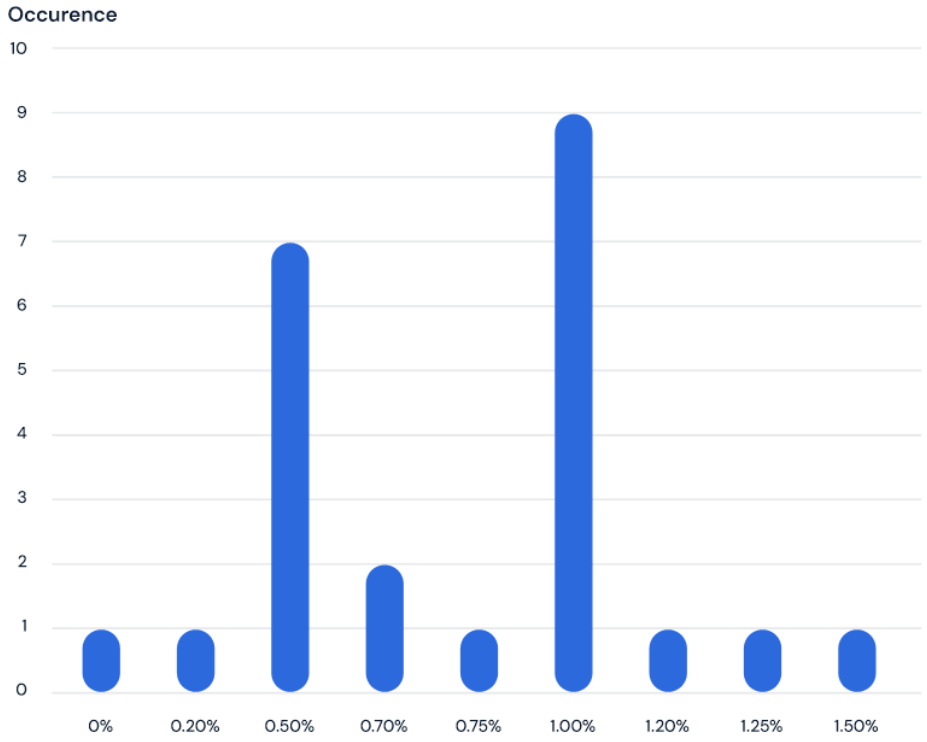
The PSP4 approved efficiency factor was 1.5 per cent per annum. For this PSP5 Proposal, we have proposed a 1.0 per cent per annum on-going efficiency factor across all controllable

operational expenditure categories[65]. We are committed to maintaining this level of continuous improvement in operating efficiency, despite the high inflationary environment we are operating within.

An efficiency factor of 1.0 per cent per annum is at the high-end of regulatory efficiency factors when compared to recent price determinations nationally (Figure 9.7). It is also important to note that there is no need for a 'catch-up' efficiency component to be incorporated into our target for PSP5, as our 'base' level operating expenditure is efficient (ie, already at the 'efficiency frontier').

Therefore, our efficiency target should simply reflect the rate at which the notional efficiency frontier would move in the water sector. Many higher efficiency factors in other price determinations can in effect include a combination of 'catch up' and 'ongoing' efficiency adjustments, if the business's is not presently at the efficiency frontier. Given we are already at the efficiency frontier, a 1.0% per annum efficiency target is high.

Figure 9.7. Frequency of approved efficiency factors, last 24 Price Determinations nationally



65 This is based on the TER's PSP4 definition of controllable costs.

Data shows that an efficiency factor of 1.0 per cent per annum is also at the high-end of the range of multi-factor productivity assessments of the water industry completed in Australia. The Productivity Commission[66] has analysed productivity trends in the urban water sector, finding that:

- Between 1995 and 2015, multi-factor productivity growth for major Australian urban water utilities ranged from 0.3 per cent to 1.0 per cent per annum.
- Productivity gains were strongest in the late 1990s and early 2000s, coinciding with institutional reforms and regulatory oversight improvements.
- Efficiency improvements were driven by metering reforms, leak reduction programs, and better asset management practices.

In regulating the prices of water utilities in NSW, IPART has based its ongoing efficiency adjustment on the average annual growth in multi-factor productivity over the last 40 years across all market sectors in Australia (not just water), which has generated efficiency rates of 0.7% to 0.9% in recent years.

We have a range of initiatives underway which will drive operating cost improvements and support the achievement of our 1.0 per cent efficiency target. These are summarised in Table 9.5.

Table 9.5. Operating efficiency approach for PSP5

As outlined in Table 9.5, our efforts in PSP4 have focussed on establishing a culture of cost consciousness in the business, building capability across the business to ensure our budgets are efficient.

In PSP5, we will enhance this capability with the recent establishment of a new Enterprise Portfolio Management Office (EPMO). The EPMO will play a crucial role in overseeing project governance, project prioritisation and benefits realisation. Within the organisation, the EPMO ensures that our projects align with strategic objectives and are executed efficiently.

With regards to efficiency improvement, the EPMO will ensure that cost and value for money are considered in project selection and prioritisation, ensuring projects are delivered efficiently and tracking benefits such as efficiency savings with discipline.

While tracking all enterprise initiatives, the EPMO has a key role in the effective use of our strategic initiative funding, which aims to deliver improvements to our business and provide a range of benefits to customers, including greater efficiency. We are proposing the continuation of our strategic initiative operating funding, totally $21.8 per annum. This allowance is one of the key enablers for continued efficiency improvements (among other benefits).

An example of a current project within our organisational priorities, and funded by strategic initiatives, is our Operations Essentials project. This project will use strategic initiative funding to improve the effectives of our operational teams. The specific investment objectives are to:

- Increase alignment between leadership and workforce resulting in increased workforce engagement.
- Increase performance for customer outcomes (cost, customer experience, time, etc.) and safety.
- Increase transparency of performance and operational workflows for data based decision making.
- Increased cost visibility and controls to enable reduction in operational costs.
- Uplift of structured management practices that enable clarity of accountabilities and performance.

The project will cost $2.3 million over two years to invest in systems and processes to better enable efficient operations. The project is expected to realise significant operational efficiencies overtime, which will be tracked by the EMPO. This is one example of our on-going focus on cost efficiency in PSP5.

Taken together, the operating and capital expenditure efficiency targets we are proposing reduce the revenue we recover from customers in PSP5 by $46.3 million.

66 Productivity Commission: Australian's Urban Water Sector Report 2011 and Productivity Commission: National Water Reform 2017.

9.7 A summary of the base-trend-step method for operating expenditure

The breakdown of the operating cost forecast consistent with the base-trend- step methodology is provided in Table 9.6 and Figure 9.10.

Figure 9.10. PSP5 base-trend-step operational expenditure forecast, $M nominal

Table 9.6. Base-trend-step breakdown of the PSP5 operational expenditure forecast, $M nominal

	PSP4		PSP5				PSP5
	FY25 (Base)	FY26	FY27	FY28	FY29	FY30	TOTAL
Base	236.27	236.27	236.27	236.27	236.27	236.27	945.08
Trend	0.00	10.10	17.56	25.30	33.32	41.63	117.81
Step	0.00	4.28	11.33	9.27	10.05	11.32	41.97
Total	**236.27**	**250.65**	**265.16**	**270.84**	**279.64**	**289.22**	**1,104.86**

10. Our forecast demand volumes

Forecasting our future demand

- Forecasting our demand is a key component for planning and setting prices and planning growth investments.
- We are proposing connection growth rates and water consumption consistent with PSP4, using our long-term regional master plans as a basis and prudently considering climate change.
- The forecast provides for modest, positive growth in customer connections and total consumption of water.
- Our demand forecast will see demand per property decline modestly over the PSP5 period, consistent with the historical trend.
- We have a target to assist customers reduce their water usage as part of this PSP5. Using less water benefits customers and supports least-cost provision of water services in the long-term.
- We note that our target to reduce customer usage is not reflected in our demand forecast in this PSP5 Proposal. If we achieve this target, we will receive less revenue relative to our PSP5 forecast. We are willing to absorb this risk within PSP5, noting that reduced usage benefits customers and contributes to lower costs in the future.

This section of our submission outlines our approach to tariff reform in PSP5, it includes:

10.1 The importance of demand forecasts

10.2 The forecasting methods we have applied

10.3 Our comparison against the PSP4 forecast

10.4 Our demand forecast for PSP5

10.5 Our customer usage reduction target for PSP5

10.1 The importance of demand forecasts

Demand forecasting is a critical component in our planning. Accurate demand forecasts inform the development of operational and capital expenditure projections, support the setting of customer service standards and drive price calculations for appropriate allocation of costs to different customer cohorts.

Our number of water and sewer connections form the basis of our fixed charges. New connections will also be subject to a developer (headworks) charge. Forecast customer consumption will attract our variable (usage) charges.

10.2 The forecasting methods we have applied

Water and sewer connections

The key input for our water and sewer connection forecasting is TasWater's regional master plans.

These have been developed and structured around several core components:

- Customer and stakeholder engagement
- System capability assessment
- Supply and demand forecasting
- System outlooks
- Options development and appraisal
- System action plans

We have employed a trend-based forecasting approach using various ABS census data and planning documents from local councils and regional planning forums. This approach aligns with the TasWater supplement to the Water Services of Association Australia Water Supply Code of Australia (MWRA Edition), which sets standards for new connection demand.

We use a number of external planning resources to inform our population and property forecasts. Our regional master plans strategically align with other state-wide, regional, and local planning efforts.

In this way, they support economic development and help local councils and planning authorities understand preferred development areas from a water and sewerage service perspective.

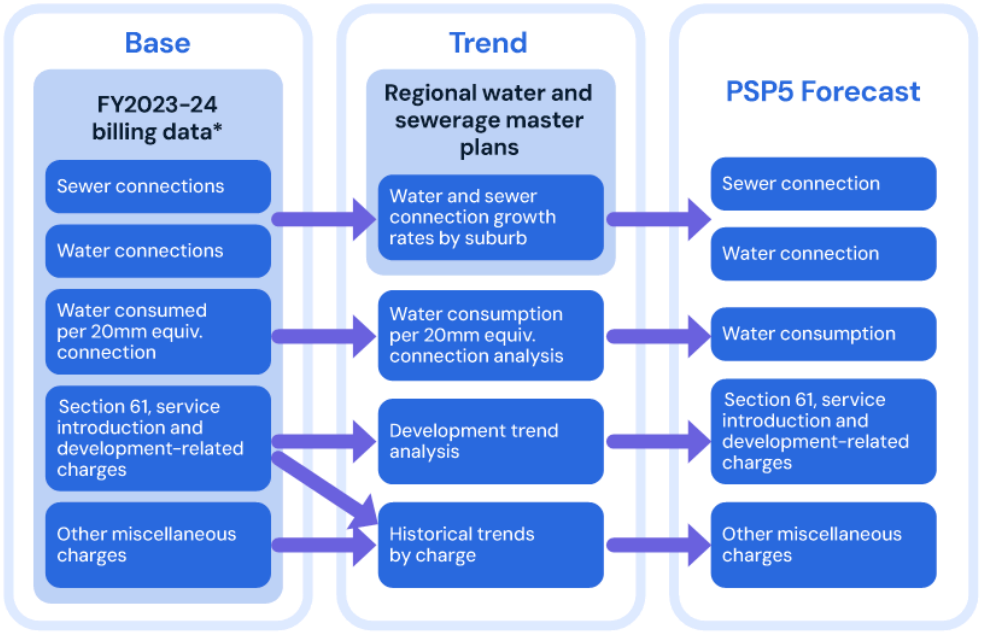
The demand forecast is also tested against growth rate data from the Australian Bureau of Statistics, the Tasmanian Department of Treasury and Finance, and Tasmanian regional land use strategies, in addition to our own connection data over the past five years.

Water consumption

The water consumption demand that has been included in the PSP5 Proposal is calculated based on forecast water connections and an average based on historical water consumption per 20mm standard connection.

Our proposed forecast also includes a climate correction factor (i.e., increased water consumption during periods of drought) to reflect our best estimate of future extreme climate events on the state. The method we employ is summarised in Figure 10.1.

Figure 10.1. Schematic of the demand forecasting method used for PSP5



*Unless otherwise noted

10.3 Our comparison against the PSP4 forecast

Water and sewerage connections have been higher than forecast

Both water and sewerage connection actuals have been higher than that forecast in PSP4. Water connection growth appears to increase in 2023-24, this is due to the reassignment of 20mm to 25mm therefore increasing the total number of standard 20mm connections (Figure 10.2). Between 2021-22 and 2023-24 water connection growth was on average 2.4 per cent higher than forecast.

Sewer connection growth, based on equivalent tenements (ETs) has outpaced that forecast in PSP4 due to a large than anticipated growth in both the residential and non-residential customer base in 2022-23 (Figure 10.3).

Figure 10.2. PSP4 forecast compared to actuals: 20mm standard water connections

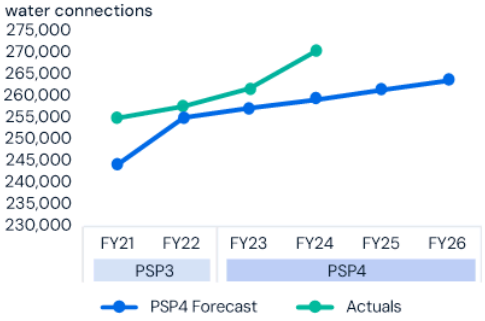
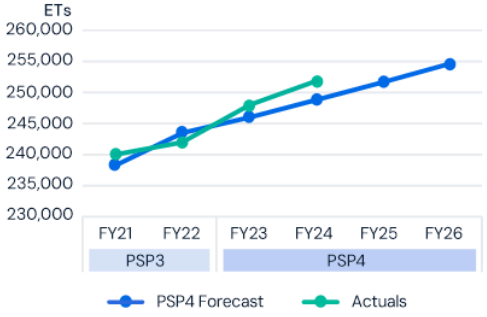


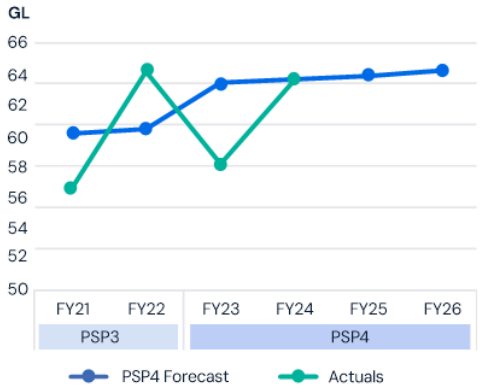
Figure 10.3. PSP4 forecast compared to actuals: ETs



Water consumption is consistent with our PSP4 forecast

Water consumption is variable, based on seasonal and climate conditions. Despite the variability, the actual consumption over 2020-21 to 2023-24 has been, on average, 2.0 per cent lower than the approved forecast in those years (Figure 10.4).

Figure 10.4. Total PSP4 Approved forecast compared to total actuals, GL



10.4. Our demand forecast for PSP5

Water and sewerage connections

We forecast that, each year on average, the number of water property connections we service will grow by 0.96 per cent and the number of sewer property connections we service will grow by 0.88 per cent over the PSP5 period (using the actual demand in 2023-24 as a base). This is outlined in Table 10.1. The total numbers of water and sewerage connections are provided in Table 10.2, Figure 10.5 and Figure 10.6.

The combined water and sewer connections growth forecast is 0.92 per cent, marginally higher than the PSP4 assumption of 0.85 per cent. As outlined in *Chapter 12 Our proposed price structures*, we are proposing to move from an Equivalent Tenement (ET) basis of sewerage charging to standard fixed and variable charges.

Therefore, we will move from providing ET forecast to providing the forecast of standard connections fixed charges.

Table 10.1. Water and sewer connection growth rate

	FY27	FY28	FY29	FY30	PSP5 average
Water connections	0.95%	0.96%	0.96%	0.96%	0.96%
Sewer connections	0.78%	0.92%	0.92%	0.92%	0.88%

Table 10.2. Water and sewer connections

Connections	FY23 (a)	FY24 (a)	FY25 (f)	FY26 (f)	FY27 (f)	FY28 (f)	FY29 (f)	FY30 (f)
Water (standard connections)	261,818	270,398	273,559	276,160	278,791	281,454	284,148	286,874
Sewer (ETs)	247,807	251,851	254,842	257,339	N/A	N/A	N/A	N/A
Sewer (standard connections)	N/A	N/A	N/A	N/A	259,336	261,716	264,125	266,564

Figure 10.5. Water connections, standard 20mm connections

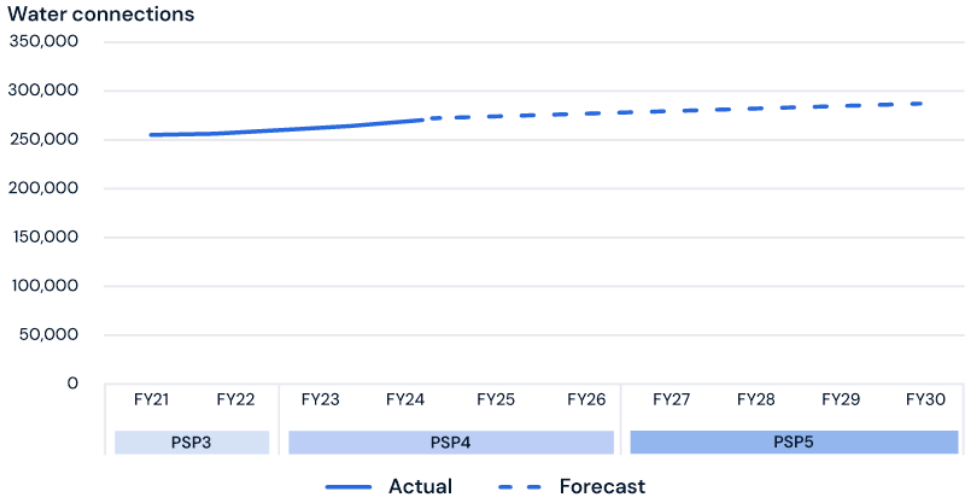
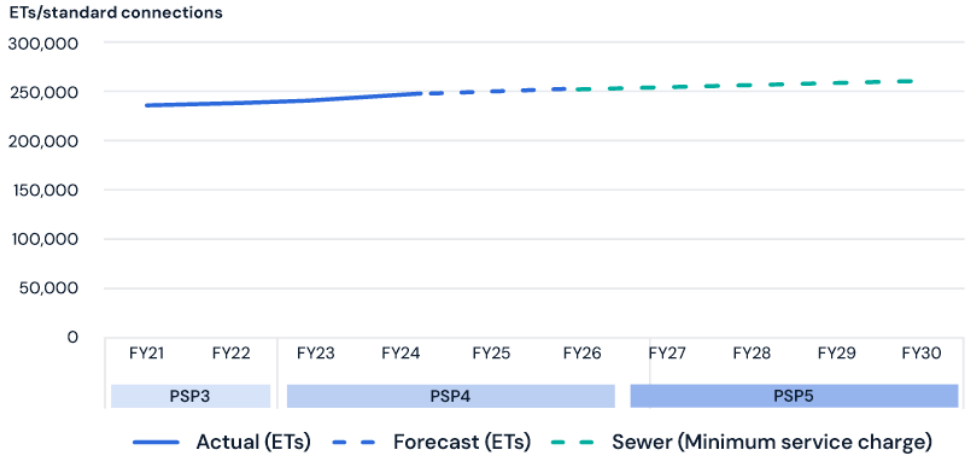


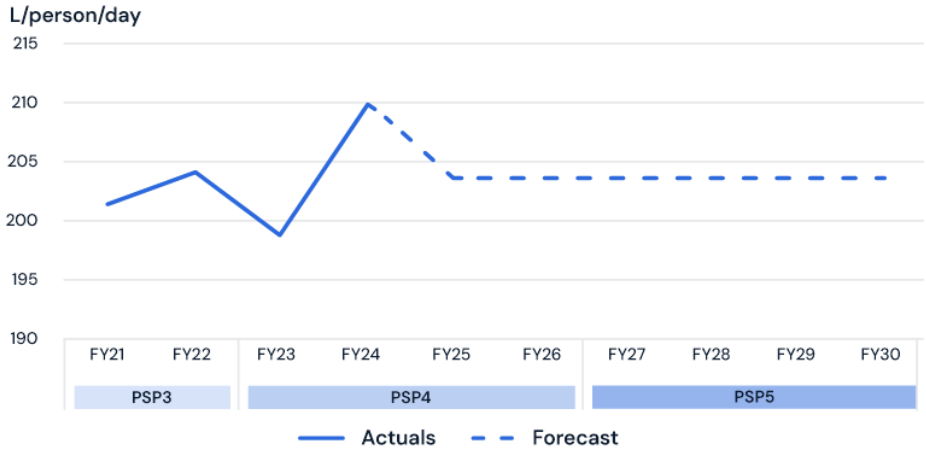
Figure 10.6. Sewer connections, ET and standard connections



Water consumption

Our customers' water consumption will vary from year to year, based largely on seasonal and climatic factors. Our current data set also includes the period influenced by water consumption behaviour during the COVID-19 pandemic. Given the variation of customer water consumption, we have used the average of the last four years of annual customer demand. For the PSP5 period, this means we are forecasting that customer consumption will stay constant across our customer base (Figure 10.7). As noted in this PSP5 Proposal, we are aiming to support customers use less water than this forecast, changing our tariffs to reward customers using less water and implementing a range of other support and education for water conservation.

Figure 10.7. Residential water consumption, litres per person per day



While we forecast a reduction in per connection consumption, the growth in connection numbers means that the forecast for total consumption will increase by 0.8 per cent per annum (Table 10.3). This includes both residential and non-residential customers.

Our demand forecasting methodology and model have been externally reviewed in the process of developing this PSP5 proposal.

10.5 Our customer usage reduction target for PSP5

As outlined in *Chapter 6 Our proposed outcomes and service standards*, we see customer usage reduction as an important part of delivering least cost and resilient water to our customers over the long-term. To this end, we have set ourselves ambitious targets to reduce the usage of residential customers to 170 litres per person per day usage, from its current level of 217 litres per person per day.

Our key initiatives to support customers using less water in PSP5 are:

- PSP5 *Outcome 3: Support customers to conserve water*, including continuing our water conservation campaign (within current operating expenditure allowance) and an additional $400,000 over the PSP5 period for a water efficient appliance program.
- PSP5 *Outcome 10: Charging based on usage*, which will increase the variable percentage of an average residential customer's bill to 33 per cent, from current 16 per cent, rewarding customers for using less water.
- We will also continue to work closely with our large, non-residential customers, to ensure that they are using water efficiently and that options for reducing water usage and possible use of alternatives such as recycled water have been identified.

We note that our target to reduce customer usage is not reflected in our demand forecast in this PSP5 Proposal. If we achieve this target, we will receive less revenue relative to our PSP5 forecast. We are willing to absorb this risk within PSP5, noting that reduced usage benefits customers and contributes to lower costs in the future.

Table 10.3. Forecast water consumption (GL)

	FY25	FY26	FY27	FY28	FY29	FY30
Water consumption (GL)	63.72	64.31	64.92	65.53	66.15	66.77

11. Other elements of our proposed revenue requirement

The revenue we require to ensure our sustainability

- To determine the revenue we need to operate, we apply the 'building block' approach, as prescribed by the TER and consistent with the pricing principles outlined in the Water Management Act 2008.
- The 'building block' approach allows TasWater to recover the costs of providing services and ensure its financial sustainability.
- PSP5 will use an updated method to calculate the regulatory depreciation element of the building block. This will simplify and make more transparent the regulatory depreciation calculation, consistent with best practice.
- We have maintained the PSP4 TER approved methodologies for WACC and inflation, updating these for the most recent market information.
- The movement of WACC and inflation, relative to PSP4 Price Determination, are both contributing to 7.9 per cent of the cost reflective 11.2 per cent per annum (including inflation) price increase.
- As outlined in *Chapter 7 Overview of our proposed revenue requirement*, the total Notional Allowable Revenue that we are proposing is $2,238.4 million.

This section of our submission outlines the inputs into the final revenue we will seek to recover from customers through our regulated prices, it includes:

11.1 Regulated Asset Base (RAB)

11.2 Regulatory depreciation

11.3 Return on capital

11.4 Inflation adjustment

11.5 Operating expenditure

11.6 Tax allowance

11.1 Regulated Asset Base (RAB)

The RAB represents the asset value that a business can earn a return on (return on capital), and the value that is returned to the business over the economic life of the assets as regulatory depreciation (return of capital). TasWater is required to establish, maintain and roll forward two separate RABs:

- $RAB_{EXISTING}$ – assets transferred to the previous regulated entities before 1 July 2011
- RAB_{NEW} – "new" assets purchased or constructed by the previous regulated entities and the current regulated entity after 1 July 2009.

To determine the return on capital, opening and closing RAB values are required. To calculate these, the two RABs need to be rolled-forward. As a starting point, the opening RAB value in each financial year is equal to the closing balance from the previous financial year. The RAB roll-forward is calculated by using the:

- Closing RAB from the second year of PSP4 (actual values at 30 June 2024)
- Plus forecast capex
- Minus forecast asset disposals
- Minus forecast third party contributions
- Plus forecast inflationary change
- Minus forecast regulatory depreciation.

The RAB for existing assets will therefore gradually decline over time due to regulatory depreciation and disposals reducing the value of those assets. However, the RAB for new assets fluctuates depending upon the quantum of increase from expenditure on capital projects and decreases from depreciation and disposals.

Wholly or partly used assets

For assets that are wholly or partly used to provide unregulated services, we have made an adjustment to our RAB to exclude a portion of assets that relate to the provision of services to treat (above domestic grade) sewage from industrial trade waste and tankered waste customers.

We have deducted the relevant amount of depreciation, return on capital and inflation gain from the assets used to provide the trade waste and tankered waste services. This amount was calculated as an apportionment based upon sewer flow and applied to the relevant asset categories within the new asset RAB.

We have not adjusted for assets relating to the provision of recycled water, which is delivered for the purposes of meeting our sewage treatment plant environmental discharge requirements. We have not adjusted for assets that provide water for irrigation purposes, as this is an opportunistic use of existing spare capacity. Operating costs to supply these services are classed as unregulated and are recovered via charges set with reference to short run marginal cost.

RAB Roll forward: Existing assets

Table 11.1 RAB Roll forward: Existing assets, $M nominal.

	PSP4				PSP5			
	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Opening value	2,354.2	2,465.5	2,501.5	2,505.0	2,766.2	2,772.4	2,771.5	2,779.0
Disposals	0.0	0.0	0.0	0.0	4.4	10.0	0.0	0.6
Escalation	165.3	89.3	60.1	77.7	75.4	75.5	75.5	75.7
Depreciation	53.5	52.2	53.0	54.7	64.8	66.5	68.0	69.9
Closing value	2,465.5	2,501.5	2,505.0	2,527.7	2,772.4	2,771.5	2,779.0	2,784.2

Table 11.2 RAB Roll forward: New assets, $M nominal.

	PSP4				PSP5			
	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Opening value	1,472.8	1,710.7	1,916.7	2,197.7	2,193.9	2,559.4	2,973.4	3,387.4
Capex	188.9	208.2	303.3	243.1	374.0	420.4	418.0	361.0
Disposals	1.4	2.8	0.7	0.8	1.6	0.1	0.0	0.1
Contributions	0.0	2.0	2.5	2.5	5.0	5.2	5.4	5.6
Escalation	103.4	61.9	46.0	68.1	59.8	69.7	81.0	92.3
Depreciation	53.0	59.2	65.3	73.1	61.7	70.8	79.6	86.0
Closing value	1,710.7	1,916.7	2,197.7	2,432.4	2,559.4	2,973.4	3,387.4	3,749.1

We note that the closing balance for 2025-26 and the opening balance for the 2026-27 do not align. This is based on the transfer of $238.5 million of assets from the new asset base to the existing asset base following a review.

Third party capital contributions

Third party capital contributions are received in the form of development services charges (headworks charges). In PSP5, we are proposing a refinement to how these prices are determined (refer *Chapter 15 Our proposed developer charges*).

To ensure that TasWater does not double-dip, the value of these contributions is removed from the value of the new asset RAB, both actuals for PSP4 and forecast for PSP5. The value of third party contributions (headworks charges) removed from the RAB in PSP5 is 11.3.

All government and other external funding sources have been excluded from all capital expenditure actuals (PSP4) and forecast (PSP5) incorporated in to the RAB. Therefore there is no external funding that needs to be removed from the RAB.

Asset disposals and write offs

Asset disposals and write offs are removed from the regulated asset base. These disposals are required when assets are obsolete or at end of life to ensure that the asset base accurately reflect the value of TasWater assets. If the asset is disposed prior to being fully depreciated the estimated value of the asset is written of the value of the asset base. The forecast value of the disposals is provided in Table 11.4.

11.2 Regulatory depreciation

The allowance for regulatory depreciation represents the recovery of capital invested by TasWater in its regulated assets. For PSP5, we are proposing a change to how this is calculated. Following the completion of the TER *Inquiry into the calculation of regulatory depreciation allowance* of TasWater's new assets, we are proposing the following approaches to existing and new RAB regulatory depreciation.

Existing asset depreciation

For the existing asset base, we are proposing to use a fixed depreciation rate of 2.28 per cent, equivalent to 43.86 years. This reflects the weighted average useful life of the existing asset base and is consistent with PSP4.

Total annual depreciation rate for the existing assets base is calculated in two stages to account for disposals from the asset base.

1. The deprecation of the existing asset base – this is calculated as the opening RAB value, escalated by inflation, and multiplied by the depreciation rate.

2. The net depreciation of the forecast disposals – applied the year after the disposal has been made.

The updated methodology results in the existing asset base being fully depreciated by FY70 (43.86). The depreciation is provided in Table 11.5.

Table 11.3. Forecast contributions, $M nominal

	FY27	FY28	FY29	FY30	PSP5 Total
Contributions	5.0	5.2	5.4	5.6	21.1

Table 11.4. Forecast asset disposal, $M nominal

Asset base	FY27	FY28	FY29	FY30	PSP5 Total
Existing RAB	4.4	10.0	0.0	0.6	15.0
New RAB	1.6	0.1	0.0	0.1	1.9
Total	**6.0**	**10.1**	**0.0**	**0.7**	**16.8**

Table 11.5. Existing asset depreciation amount for PSP5, $M nominal

Building block component	FY27	FY28	FY29	FY30	PSP5 Total
Water	34.1	34.9	35.7	36.6	141.3
Sewer	30.7	31.5	32.4	33.2	127.8
Total	**64.8**	**66.5**	**68.0**	**69.9**	**269.1**

New asset base depreciation

To calculate the new asset base depreciation the assets have been split into 15 different asset categories. Depreciation will be calculated for each category to reflect the asset category value and a weighted average remaining asset life, as well as the new capex useful asset lives.

We consider that using 15 asset categories simplifies the line-by-line calculations from PSP4 and ensures that the deprecation allowance appropriately reflects the differences in the economic lives for different types of regulated assets.

The asset categories and remaining useful lives used to calculate depreciation for PSP5 is shown in Table 11.6.

The calculation of the new asset base is completed in two stages:

1. The depreciation of the asset category base exclusive of net new capex and disposals – this is calculated as the opening RAB value multiplied by inflation and the asset category depreciation rate.

2. The net capex of forecast new capex and forecast disposals – this depreciation amount commences the year after the net cost is incurred. As a result, we propose to apply depreciation for the new asset on an 'as-incurred' basis.

The total depreciation allowance for new assets will be the sum of depreciation amounts of each of the asset category's depreciation calculations. The depreciation is provided in Table 11.7.

Table 11.6. New asset base categories and remaining useful life applied to PSP5 depreciation

Asset Category	PSP5 Weighted average remaining life	New Capex Weighted average remaining useful life
Dams	82.84	100.00
Easements	N/A	N/A
Intangible	2.70	10.00
Land	N/A	N/A
Land and building-Other	36.95	50.00
Leasehold	N/A	N/A
Minor other	24.18	35.00
Pipe Waste	60.40	80.00
Pipe Water	54.53	80.00
Pump Waste	44.26	60.00
Pump Water	32.08	60.00
Reservoirs	56.55	80.00
Treat Waste	42.29	50.00
Treat Water	41.96	50.00
Vehicles	4.40	10.00
Total	**46.73**	**60.82**

Table 11.7. New asset depreciation amount for PSP5, $M nominal

Asset base	FY27	FY28	FY29	FY30	PSP5 Total
Water	36.6	41.4	45.4	47.8	171.2
Sewer	23.1	27.0	31.4	34.8	116.3
Total	**59.7**	**68.4**	**76.8**	**82.6**	**287.5**

11.3 Return on capital

Weighted average cost of capital (WACC)

The return on capital provides us with a return on the capital we invest to build, renew and upgrade our assets. It is determined by calculating a Weighted Average Cost of Capital (WACC) which takes into account the assumed cost of equity and cost of debt and the risk profile associated with our operations. Separate WACCs are determined for new and existing assets.

Table 11.8 shows the parameters that have been calculated using the PSP4 TER approved methodology to derive the WACC to apply to new and existing RABs.

Table 11.8. WACC parameters

Parameter	Estimate
Gearing	**60.00%**
Cost of debt	4.82%
Debt raising costs	0.08%
Cost of debt (w/ premium)	**4.90%**
RFR	4.45%
Equity Beta	65.00%
MRP	6.00%
Cost of equity (new)	**8.25%**
Cost of equity (existing)	**3.00%**
WACC (new)	**6.28%**
WACC (existing)	**4.14%**

Calculation of return on capital

The relevant WACC is multiplied by an average of the opening and closing RAB value in each year of the regulatory period. This calculation is used to determine the return on capital to be recovered during the PSP5 period. The total return on capital is provided in Table 11.9. As our new RAB (made up of post-2011 assts) grows relative to our existing RAB, the higher WACC used to calculate the return on capital for the new RAB will place upward pressure on prices over time.

11.4 Inflation adjustment

When rolling forward the past RAB, actual CPI is used, while forecast CPI is used for rolling forward the RAB into the future. Due to the use of a nominal rate of return and indexation of the RAB for inflation, the inflationary adjustment in the RAB is deducted from our NAR to eliminate double counting. The method to forecasting CPI remains unchanged from PSP4. The CPI forecast is provided in Table 11.10.

The actual CPI used to roll-forward the RAB is based on ABS All Groups CPI Australia[67] on a March to March basis. A forecast has been made for the 2025 and 2026 financial years based on the RBA Statement of Monetary Policy May 2025. This is provided in Table 11.11.

The final inflationary gain adjustment to NAR is provided in Table 11.12.

67 This is consistent with the approach approved in the PSP4 Final Decision. The ABS SeriesID is A2325847F.

Table 11.9. Return on capital, $M

	FY27	FY28	FY29	FY30	PSP5 Total
Return on capital: Existing RAB	114.6	114.7	114.9	115.1	459.4
Return on capital: New RAB	142.1	165.2	189.7	212.5	709.5
Total return on capital	**256.7**	**280.0**	**304.5**	**327.6**	**1,168.9**

Table 11.10. PSP5 forecast inflation index

	FY27	FY28	FY29	FY30
Forecast inflation index (% annual change)	2.72%	2.72%	2.72%	2.72%

Table 11.11. Actual inflation applied in PSP4 to 'roll-forward RAB, with forecasts for FY25 and FY26

	FY22	FY23	FY24	FY25 (Forecast)	FY26 (Forecast)
Actual and forecast inflation for PSP4 (% annual change)	6.10%	6.00%	3.80%	2.10%	3.10%

Table 11.12. Inflationary gain adjustment, $M nominal

	FY27	FY28	FY29	FY30	PSP5 Total
Inflationary gain adjustment	132.7	142.4	153.0	163.9	591.9

11.5 Operating expenditure

Under the regulatory framework, we are able to recover the operating expenditure that is considered by the TER to be prudent and efficient. Total operating expenditure for the PSP5 period has been provided in Figure 9.2 in *Chapter 9. Our efficient operating costs.*

11.6 Tax allowance

From 1 January 2019, we were withdrawn from the National Tax Equivalent Regime (NTER) after the passing of the *Water and Sewerage Legislation (Corporate Governance and Pricing) Amendment Act 2018*. As such, we are no longer required to pay income tax and a tax rate equal to zero is applied. This results in the tax allowance in the NAR build up equalling zero.

Section 4. Our proposed prices

12. Our proposed price structures

Our proposed changes to give customers more control of their bill

- Currently, our customers have very little control over their bills.
- We have the highest fixed proportion of an average customer bill of any major water business in Australia. This is 84 per cent of the combined water and sewerage bill for an average customer.
- We have heard loud and clear from our customers that they want greater usage charges relative to fixed charges and to give them more control over the amount of their bills.
- This has been supported by the TER's recent inquiries.
- Our PSP5 proposal will move to an overall 67 per cent fixed and 33 per cent variable for an average residential customer's bill, with the changes consisting of:
  - An increase to the water variable charge from 35 percent to 50 per cent
  - The changing of sewerage charging from being based on equivalent tenements to fixed and variable charging
  - Inclusion of a variable sewerage charge of 20 per cent, which will be applied to estimates of sewer discharge volumes (calculated by applying a discharge factor to metered water usage).
- When viewed in isolation of the general price increase, this would result in 63 per cent of all customers paying less than they would otherwise, before the proposed price increase.
- In the first year of PSP5, fixed charges to all customers will reduce $176 per annum. Even after the price increase in the first year of PSP5 (1 July 2026), 34 per cent, or 76,000, of all customers will pay less.
- The tariff reform proposal is revenue neutral to TasWater, it results in a fairer distribution of the costs of the system, where those customers who use more, pay more. The proposal represents an important evolution of water and sewerage pricing in Tasmania.

This section of our submission outlines our approach to tariff reform in PSP5, it includes:

12.1 Our current tariff approach does not provide customers with much control over their bills

12.2 The proposed tariff structure for PSP5 will increase control for customers

12.3 Customer bill implications – more than 63 per cent of customers will pay less

12.4 Application and review of discharge factors

12.5 Our proposal is an important evolution of water and sewerage pricing in Tasmania.

12.1 Our current tariff approach does not provide customers with much control over their bills

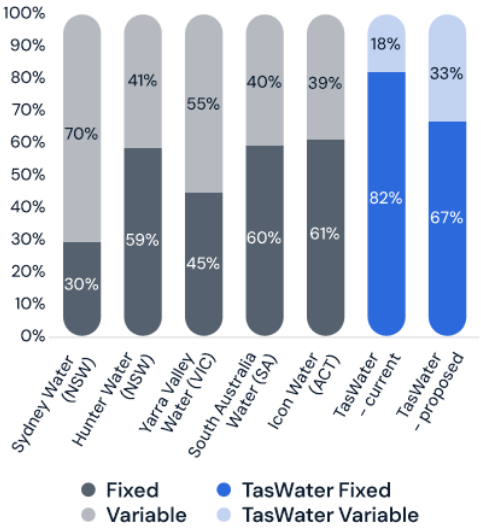
Following the Tasmanian water reform in 2000, a large focus was the implementation of two-part (fixed and variable) tariffs and then harmonisation of tariffs across the state[68]. By PSP4, this has been successfully achieved, however our current tariffs do not provide customers with much control over their bills. We currently also use equivalent tenements[69] (ETs) as the basis for our sewerage charges, which creates a wholly fixed charge, but also creates confusion and real and perceived inequities with our customers.

For example, the annual bill for our median customer, who uses 137kL currently, is almost $1,000 higher in fixed charges than variable. The annual bill would be comprised of $1,149 in fixed charges and $167 in variable charges.

Unlike other Australian water utilities, which offer more variable price structures, our system relies heavily on fixed charges (Figure 12.1). This limits customers' ability to manage the amount of their bill based on actual usage and drives the wrong behaviours in reducing consumption and conserving water. We often get feedback from customers questioning the value of conserving water as the don't see the direct benefit in their bill.

Setting prices at levels that reflect the true cost to the community of supplying an additional kL of water will promote optimal levels of consumption. If the variable price of water is 'too low' (e.g, below the 'true cost' or LRMC of supply), this will promote inefficiently high levels of consumption.

Figure 12.1. Fixed/variable bill splits of Australian utilities



Our customers want to have more control over their bills

A key insight from our extensive customer engagement process was the strong customer preference for usage-based charging, allowing customers to reduce bills by conserving water. One of the seven recommendations from the Water Future Community Advisory Panel focused on increasing the usage component of bills to promote water conservation. (refer to *Chapter 3. Our collaborative approach with customers).*

TER inquiry directed the move to a fixed-variable structure for sewerage

In response to customer feedback received during the PSP4 price determination, the TER conducted an inquiry into sewerage charging. A key outcome from the inquiry required TasWater to introduce, for the fifth regulatory period (PSP5), a fixed and variable charge for all regulated sewerage customers. This is to move away from using ETs as a basis of sewerage charging.

68 The Water Management Act 1999 came into effect 1 January 2000, with the statewide move to two-part pricing mandated 1 July 2011 with the commencement of economic regulation (PSP1).

69 We use an Equivalent Tenement (ET) method to calculate sewerage prices. One ET is the estimated load of sewage from an average residential house in dry weather flow conditions. It is a proportion of a water ET, on the basis that a proportion of 'water in' will appear as 'water out'. ET sewage rates for different land uses are calculated as a factor of this load. More information can be found here.

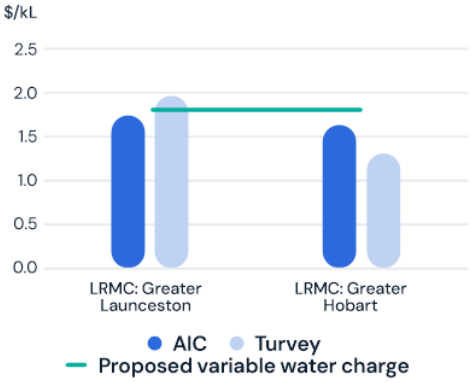
The PSP5 proposed changes to our pricing seek alignment with best practice pricing principles to be more cost-reflective and equitable whilst maintaining simplicity and transparency.

The new price structures broadly reflect our cost structures

Our proposed price structures aim to ensure that TasWater's usage price covers its Short Run Marginal Cost (SRMC) of supply, otherwise known as its cost of production, (estimated at $0.37/kL for water production in 2024-25 dollars[70]) and moves closer to our best estimates of the Long Run Marginal Cost (LRMC) of water supply, enhancing incentives for the efficient use of water and consistent with the National Water Initiatives Pricing Principles.

The LRMC of water supply is an economic concept that helps businesses and regulators assess the cost of producing one extra unit of water over the long term. It is used as a reference point (only) for determining the variable price of water. Each of our 59 drinking water systems have their own LRMC. We have made an estimate of the LRMC of Greater Hobart and Greater Launceston to serve as a refence point for our proposed PSP5 variable charge, which aligns closely to it[71]. This is provided in Figure 12.2.

Figure 12.2. Estimate of LRMC and our proposed PSP5 water variable charge, $/kL



12.2 The proposed tariff structure for PSP5 will increase control for customers

Increase to the variable water component

The PSP5 Proposal increases the water variable price under the two-part tariff, which will increase the variable component of customers' bills and commensurably decrease the fixed component (i.e. the tariff reform is revenue neutral). This will mean more of a customer's bill is controlled by their water usage. Our proposal will move an average residential customer's bill from 84 per cent fixed and 16 per cent variable to 67 per cent fixed and 33 per cent variable. Water and sewerage fixed charges combined will reduce by $176 at the start of PSP5. On the other hand, water variable charge is proposed to increase from $1.26/kL to $1.81/kL. We will also introduce a sewerage variable charge for the first time.

Inclusion of a variable sewerage charge

PSP5 proposes to restructure the sewerage tariff to move from a one-part to a two-part tariff, with the two-part tariff comprised of:

- a fixed charge
- usage charge based on each customer's estimated discharges (kL) to the sewer network.

This proposal is to move away from the current approach of using ETs as a basis for sewerage charging, which essentially creates a wholly fixed sewerage charging. For customers, the inclusion of a variable sewerage charge has a double benefit. Customers who use less water will pay less water variable charges and less sewerage variable charges. This reflects that they use the water and sewerage systems less and therefore contribute less to the need to incur costs in maintaining and augmenting these systems over time.

70 This is an average SRMC cost across all drinking water systems and therefore considers different treatment processes and different system sizes. Recent analysis into the SRMC at Bryn Estyn indicates that the SRMC for this new plant was $0.53/kL.'

71 We have used two methods to estimate LRMC, the Average Incremental Cost ("AIC") method and the "Turvey" or perturbation method.

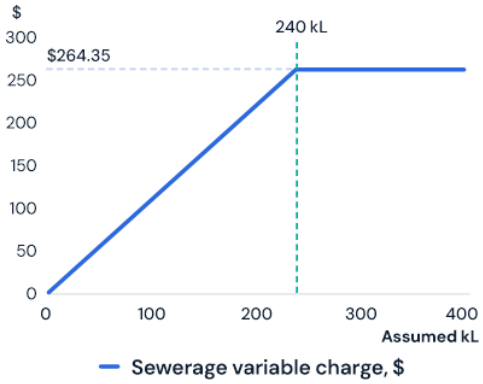
Application of sewerage fixed and variable charges: Residential customers

Our proposal is to cease using ETs as the basis for sewerage fixed pricing, consistent with the TER's inquiry into sewerage charging and customer feedback. For residential customers, a minimum sewerage fixed charge per customer per installation[72] will be applied. For example, where there are multiple residential dwellings or units at one installation, the customer will be charged the minimum amount multiplied by the number of dwellings or units.

The sewerage variable charge (of $1.10/kL) will be applied to an assumed volume (kL) of customers' discharge to the sewer network. This assumed volume is calculated by multiplying the customer's metered water volume (kL) by the residential discharge factor, which is 90 per cent. The discharge factor is the assumed percentage of water that is discharged to the sewer network. The residential customer 90 per cent discharge factor is consistent with other jurisdictions in Australia.

Residential customers will have their assumed sewerage volume capped at a maximum of 240kL per year. This means customers will not incur additional charges for any sewerage usage above the 240kL annual limit. This means no residential customer will pay more than $264.35 per year for the sewerage variable charge (Figure 12.3).

Figure 12.3. Sewerage variable charge, with residential customer cap $



A worked example of the application of sewerage fixed and variable charges for residential customers is provided in Table 12.1.

Application of sewerage fixed and variable charges: Non-residential customers

For non-residential customers, the fixed charge would be scaled up to reflect the size of each customer's connection using a 20mm standard connection as the base and multiplied by the regulated connection size multiplier. This is the same as the basis for the current water fixed charge. The size of a customer's connection is a readily available proxy that broadly reflects their draw on the supply network (or their contribution to peak demand, and hence contribution to the capacity requirements of the system). Table 12.2 outlines the current approved regulated connection size multiplier, which we propose to maintain in PSP5.

72 'Installation' is defined as a single dwelling, unit or lot that is provided a sewerage service. Each dwelling, unit or lot will attract a minimum sewerage fixed charge.

Table 12.1. Residential sewerage fixed and variable charge calculation $

Example 1 – Residential house, 1 x 20 mm water connection, 173 kL/an

Sewer fixed charge:
= 1x minimum standard charge
= 1 x $667.54
=$667.54

Sewer variable charge:
Assumed volume:
= water consumption (kL/an) x discharge factor
= 173 kL x 0.9
= 156 kL

Variable charge:
= assumed volume (kL) x sewer variable charge
= 156 kL x 1.10 ($/kL)
= $171.49

Total sewerage charge:
= sewer fixed charge + sewer variable charge
= $667.54 + $171.49
= $839.03

Example 2 – Residential house, 1 x 20 mm water connection, 350 kL/an

Sewer fixed charge:
= 1x minimum standard charge
= 1 x $667.54
=$667.54

Sewer variable charge:
Assumed volume:
= water consumption (kL/an) x discharge factor
= 350 kL x 0.9
= 315 kL – the assumed volume is greater than the 240kL/an discharge cap, therefore the customer will only be charged for 240kL
= 240 kL

Variable charge:
= assumed volume (kL) x sewer variable charge
= 240 kL x 1.10 ($/kL)
= $264.35

Total sewerage charge:
= sewer fixed charge + sewer variable charge
= $667.54 + $264.35
= $931.88

Example 3 – Multi unit complex, 10 units, 1 x 40mm connection, 1,200 kL/an

Sewer fixed charge:
= 10 x minimum standard charge
= 10 x $667.54
=$6,675.36

Sewer variable charge:
Assumed volume per unit:
= water consumption (kL/an) x discharge factor ÷ number of units
= (1,200 kL x 0.9) ÷ 10
= 1080 kL ÷ 10
= 108 kL per unit

Variable charge per unit:
= assumed volume (kL) x sewer variable charge x number of units
= 108 kL x 1.10 ($/kL)
= $118.96

Variable charge for unit complex:
= Annual variable sewer charge x number of units
= $118.96 x 10
= $1,189.56

Total sewerage charge:
= sewer fixed charge + sewer variable charge
= $6,675.36 + $1,189.56
= $7,864.92 (or $786.49 per unit)

Table 12.2. Regulated connection size multiplier

Connection size (mm)	Multiplier
20	1.00
25	1.56
30	2.25
32	2.56
40	4.00
50	6.25
65	10.56
75	14.06
80	16.00
100	25.00
150	56.25
200	100.00
250	156.25

Due to the diversity in non-residential business activities, we are proposing to apply category-specific discharge factors (Figure 12.3) to these customers. These have been designed to reflect the patterns of water use and subsequent disposal to the sewer system of different types of non-residential and commercial activities. These are based on water industry benchmarks.

The sewerage usage amount will be calculated by multiplying the sewerage usage price ($/kL) by the customer's assumed volume of discharge (kL) to the sewer network. This volume is calculated by applying the customer's discharge factor by their metered water usage.

A worked example of the application of sewerage fixed and variable charges for non-residential customers is provided in Table 12.4.

Table 12.3. Non-residential sewerage discharge factors

Sewage discharge category	Non-residential business type	Range of estimated discharge proportion	Sewerage variable discharge factor
No discharge: No connection to the sewerage system	Vacant land	0-25%	0
Low discharge: A small proportion of metered water is discharged to the sewerage system	Beverage manufacturing, garden nurseries	25-50%	0.25
Moderate discharge: Around 50% of metered water is discharged to the sewerage system	Outdoor retail	50-70%	0.50
Significant discharge: A significant proportion of metered water is discharged to the sewerage system	Child care centres, school, college, university, sporting clubs	70-90%	0.70
High discharge: Most, if not all, of metered water is discharged to the sewerage system.	Medical, retirement resorts, indoor shops, hospitality venues, hotels, restaurants, community centres, fabrication and manufacturing	90-100%	0.90

Table 12.4. Non-residential sewerage fixed and variable charge calculation $

Example 1 – Restaurant, 1 x 20 mm water connection, 150 kL/an	Example 2 – Sporting club, 2 x 25 mm water connection, 420 kL/an
Sewer fixed charge: = Minimum standard charge x connection charge multiplier (20mm) = $667.54 x 1.0 = $667.54	**Sewer fixed charge:** = Minimum standard charge x connection charge multiplier (2 x25mm) = $667.54 x (2x 1.56) = $667.54 x 3.13 = $2,086.05
Sewer variable charge: Assumed volume: = water consumption (kL/an) x restaurant specific discharge factor = 150 kL x 0.9 = 135 kL	**Sewer variable charge:** Assumed volume: = water consumption (kL/an) x sporting club specific discharge factor = 420 kL x 0.7 = 280 kL
Variable charge: = assumed volume (kL) x sewer variable charge = 135 kL x 1.10 ($/kL) = $148.70	**Variable charge:** = assumed volume (kL) x sewer variable charge = 280 kL x 1.10 ($/kL) = $308.40
Total sewerage charge: = sewer fixed charge + sewer variable charge = $667.54 + $148.70 = $816.23	**Total sewerage charge:** = sewer fixed charge + sewer variable charge = $2,086.05+ $308.40 = $2,394.45

12.3 Customer bill implications – more than 63 per cent of all customers will pay less

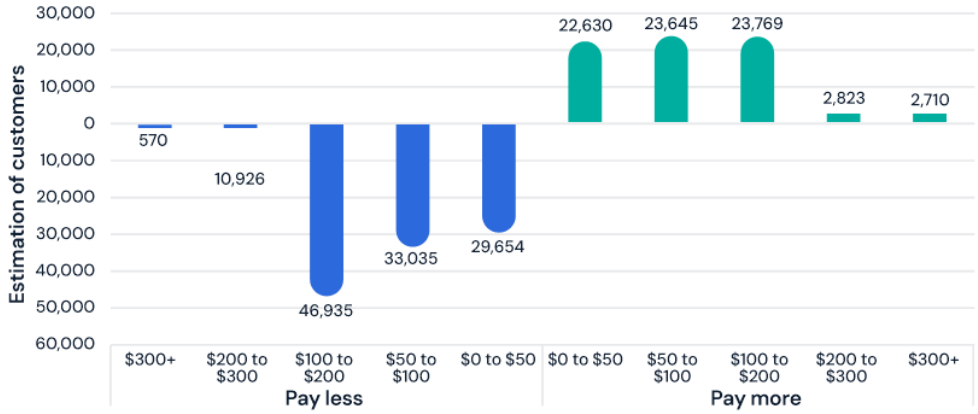
Changes to price structures should not change the total revenue to be recovered by TasWater through our prices (i.e. tariff reform is revenue neutral). Rather, they will change the allocation of costs amongst customers. Customers who use more water will contribute relatively more to our total revenue. This occurs through a relative reduction in fixed charges, which will reduce by $176 per annum at the start of PSP5. Variable charges will relatively increase.

The customer impact analysis we have undertaken compared bills under the current price structure with bills under the proposed new price structure, assuming that in both scenarios we recover our proposed Notional Allowable Revenue (NAR) for the PSP5 regulatory period. This allows us to assess the impacts of the proposed change in price in isolation from our change in costs (as opposed to the combined impact of our proposed change in price structures and proposed increase in the NAR).

When considered in isolation of our proposed price increase for PSP5, 63 per cent of our customer base will pay less (this is relative to current tariffs). Even after the first-year price increase for PSP5, 34 per cent of all customers will pay less with this tariff reform proposal. Customers will benefit more if they reduce their usage during the PSP5 period.

For residential customers only, 62 per cent will pay less before the proposed PSP5 price increase is considered (customers who use less than 199 kL) and 32 per cent will pay less after the first-year price increase (customers who use less than 114 kL). The distribution of residential customers who will pay more and pay less is outlined in Figure 12.4.

Figure 12.4. Residential customer impacts (no price increase)



For non-residential customers, 73 per cent will pay less before the proposed PSP5 price increase is considered and 63 per cent will pay less after the first-year price increase. The distribution of non-residential customers who will pay more and pay less is outlined in Figure 12.5. This is because of the many small businesses with low water usage, who will pay less under our proposed new price structures.

Figure 12.5. Non-residential customer impacts (no price increase)

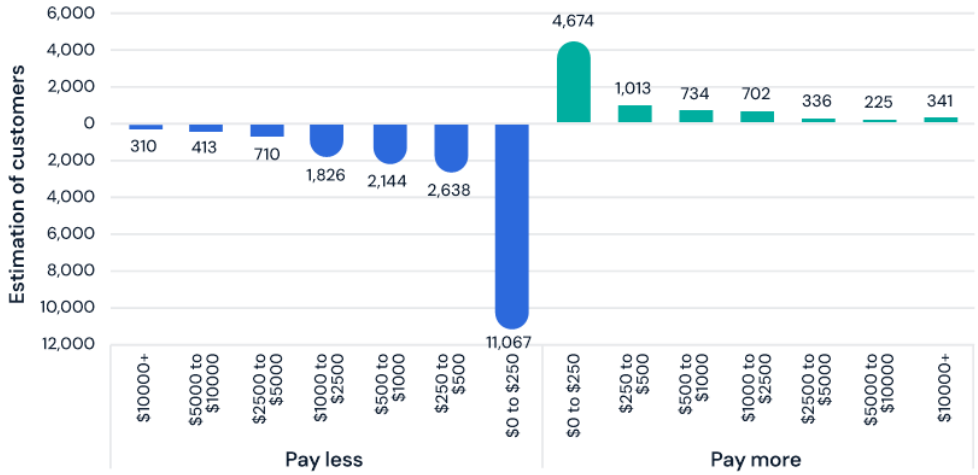


Table 12.5 outlines the customer bill impacts when the proposed tariff reform approach is considered with the PSP5 proposed price increases. More information on the impact of our proposed prices is provided in *Chapter 16 What the proposed prices mean for our customers and how we will support them.*

12.4 Application and review of discharge factors

If non-residential customers consider their discharge factors are materially incorrect (i.e. that they discharge less wastewater to the sewer network than indicated by their assigned discharge factor), they can ask TasWater to review their discharge factor. The proposed discharge factor review process is outlined in Table 12.6. This process has been developed based on other water businesses practices.

For charging purposes, we propose to cap residential customers' estimated sewer discharges at 240kL per annum.

12.5 Our proposal is an important evolution of water and sewerage pricing in Tasmania

Our proposed changes aim to increase the variable component of a typical residential customer's combined water and sewerage bill, giving customers greater control over the amount of their bill. These changes will ensure prices are more cost-reflective, fair, and equitable, promoting efficient water conservation and use.

They align with customer views and preferences from our customer engagement including the Bill

Table 12.5. Customer bill impacts of tariff reform with proposed price increases (including inflation)

Tariff	FY26	FY27	FY28	FY29	FY30
Average household	$1,407	$1,498	$1,629	$1,773	$1,929
Difference from FY26		$90	$222	$366	$522
Pensioner household	$1,290	$1,237	$1,346	$1,465	$1,593
Difference from FY26		-$53	$56	$175	$304
2-person household	$1,391	$1,461	$1,590	$1,730	$1,882
Difference from FY26		$70	$199	$339	$491
Small family (2 adults, 1 child)	$1,492	$1,712	$1,862	$2,026	$2,204
Difference from FY26		$220	$371	$534	$713
Family (2 adults, 2 children)	$1,593	$1,856	$2,020	$2,197	$2,391
Difference from FY26		$264	$427	$605	$798
Large Family (5 people)	$1,694	$2,001	$2,177	$2,369	$2,577
Difference from FY26		$307	$484	$675	$884
6+ person household	$1,793	$2,144	$2,333	$2,538	$2,761
Difference from FY26		$351	$539	$745	$968
Business	$1,580	$1,838	$2,000	$2,176	$2,368
Difference from FY26		$258	$420	$596	$787

Simulator survey, comply with the TER's Inquiry into sewerage charges, and adhere to the National Water Initiative's Pricing Principles, whilst bringing TasWater more in line with the pricing structures of other Australian water utilities.

We believe that our proposed price structures are consistent with the pricing principles outlined in the *Water and Sewerage Industry Act 2008*. In particular, our proposed regulated prices:

- Improve and extend a two-part pricing approach to sewerage charges.
- Enhance incentives to promote economic efficiency, reduce costs or otherwise improve productivity with respect to a regulated service; with greater variable charge.
- Are commercially and technically reasonable.
- Allow for prices that are cost reflective for customers or customer classes, as a customer's bill will more closely reflect its usage and therefore the costs of supplying that customer.

We have provided further analysis regarding the customer impacts of these proposed prices in *Chapter 16 What the proposed prices mean for our customers and how we will support them.*

Table 12.6. Mechanism to review a customer's discharge factor

Step 1: Customer enquiry	A customer asks TasWater to review the discharge factor. This can occur via a call to TasWater's contact centre or through completing an online form.
Step 2: Customer indoor water usage audit	TasWater will ask the customer to complete an indoor water usage audit over a specified number of days. During this period, the customer will be required to document and log their water usage. TasWater will provide a logbook for the customer to populate.
Step 3: Desktop analysis by TasWater	Using the information provided by the customer in the audit, TasWater will complete a desktop analysis to determine whether the current customer discharge factor is appropriate or requires refinement.
Step 4: Complete an onsite assessment to determine the discharge factor	If the outcome of the desktop analysis results in the refinement of the customer discharge factor, TasWater will complete an onsite assessment. The purpose of the onsite assessment is to determine the customer's new discharge factor. This will be completed by measuring water flows in and out of the installation over a specified duration. To set up the assessment the customer will be required to: • purchase new water meters for each of the installation's outdoor taps • hire a licensed plumber to check and install the meters. Once set up, TasWater will complete the meter reads at the start and the end of the assessment period. The customer will be liable to pay a fee to cover the cost of the meters reads, administering the assessment and completing the analysis. The estimate of this fee is $484.
Step 5: Apply the new discharge factor to the customer's account (if applicable)	If the onsite assessment results in a change to the discharge factor, TasWater's billing system will be updated to reflect this change. The new discharge factor will be applied to the customer's future bills on completion discharge factor review. The customer's bill will not be backdated to reflect the change in the discharge factor.

13. Our proposed water and sewerage prices

Our proposed water and sewerage charges

- Our regulated water and sewerage prices reflect the pricing principles outlined in our governing legislation.
- Our proposed water and sewerage prices reflect our proposal for tariff reform outlined in *Chapter 12 Our proposed price structures*. This will see us increase the portion of customer bills based on usage, giving greater control of bills to customers.
- We are proposing to retain a 'postage stamp' pricing approach, along with the same customer classes.
- We are proposing to change the name of the 'fixed' and 'service' charges to 'access' charges.
- This results in our water access charge being $346 per annum and our sewerage access charge being $668 per annum in 2026-27. This is a combined reduction of $176 per annum from 2025-26 prices.
- The water variable charge is $1.81 per kL and a new sewerage variable charge is $1.10 per kL (with a discharge factor applied to water usage to estimate sewer discharge volume).
- We have proposed minor changes to our customer contract and PSP5 supporting policies for the PSP5 period, aimed to improve their clarity for customers.

This section of our submission outlines our approach to tariff reform in PSP5, it includes:

13.1 Approach to pricing

13.2 Application of regulated water and sewerage prices

13.3 Renaming of water and sewerage fixed prices

13.4 Regulated water prices

13.5 Regulated sewerage prices

13.6 Miscellaneous service prices

13.7 Proposed customer contract

13.8 Proposed supporting policies

13.9 Service introduction and service replacement

13.10 Bill presentation

13.11. Unregulated revenue

13.1 Approach to pricing

Our prices have been set to recover our Notional Allowable Revenue, less a proposed amount to be deferred into the PSP6 period. This will provide us with sufficient revenue to meet our obligations and deliver the agreed standards of customer service, while taking into account the impact of price changes on customers.

In accordance with the *Water and Sewerage Industry Act 2008*, the price for the provision of a regulated service must:

- Provide a regulated entity reasonable opportunity to recover the efficient costs it incurs in providing those services or complying with its regulatory obligations
- Provide for efficient and cost-reflective pricing
- Provide effective incentives to promote economic efficiency, reduce costs or otherwise improve productivity
- Allow a regulated entity to receive a return on assets used in providing the regulated service
- Reflect, to the extent that it is commercially and technically reasonable, the costs that are directly attributable to a particular customer or class of customers.

We believe that our proposed regulated prices meet the pricing principles outlined in the *Water and Sewerage Industry Act 2008*.

13.2 Application of regulated water and sewerage prices

Serviced land

The *Water and Sewerage Industry Act 2008* requires our PSP5 Proposal to include a description of the land, identifiable by individual title or locality, that we will permit to be connected to our water infrastructure and/or sewerage infrastructure. This description of land is referred to as 'serviced land'.

We have identified serviced land using individual land titles that meet the requirements in Table 13.1.

Pricing zones

For the PSP5 period, we will continue to adopt a postage stamp pricing approach whereby customers pay the same prices regardless of where they live in Tasmania, or where their business is located in Tasmania. Postage stamp pricing has been retained for PSP5 as:

- The concept of paying the same price for the same service is viewed by customers as equitable for essential services such as water and sewerage
- Uniform pricing is simple to understand, particularly given the many different prices that applied when services were supplied by Tasmanian councils
- Customers have paid postage stamp prices since 2015 – change would be likely to create customer confusion and administrative burden
- The enhanced efficiency that can result from nodal pricing cannot occur until prices are cost-reflective
- Operating our business as a single network minimises costs for all customers
- Costing for regions would take time, incur cost, and be uncertain.

Customer classes

For the PSP5 period, our customer classes for regulated services are:

- Full-service (Water)
- Full-service (Sewerage)
- Limited water quality customers
- Limited water supply customers
- Combined limited water quality and limited water supply customers
- Fire service customers
- Commercial trade waste customers
- Septic Tank Effluent Disposal (STED) customers.

Table 13.1. Description of serviced land

Description of serviced land – Water
We identify serviced land based on servicing factors and the standards in the TasWater Supplement to WSAA Water Supply Code of Australia (MRWA Edition) (available on our website www.taswater.com.au). This Supplement details our minimum service pressure at peak hour demand and minimum flow rate as follows: • Minimum service pressure at the connection point is 220kPa, static head of 22m • Minimum flow rate at the connection point is 15 litres/minute Land titles are defined as water serviced land when they meet all the following criteria: • Can be supplied with treated water. • Are within 30 metres of our water reticulation main. • Can receive the minimum flow and pressure at the connection point as described in the Supplement. • Connection to our reticulation would not cross a land title owned by a third party; and • The physical characteristics or location of the property are not such as to require the application of unusual or unusually costly infrastructure, design, or installation techniques in order for the connection to be made. Treated water means either fully treated water or disinfection-only water supplies. Raw water supplies are excluded. Land titles that do not meet the criteria listed above are unserviced for water.
Description of serviced land – Sewer
We have a range of sewerage infrastructure around the state depending on local conditions and topography. Land titles are defined as sewer serviced land when they meet all the following criteria: • Are within 30 metres of our sewer reticulation main and can be serviced via gravity connection. • Connection to our reticulation main would not require installation of infrastructure on land owned by a third party beyond distances set out in the TasWater Supplement to WSA 02-2014-3.1 WSAA Gravity Sewerage Code of Australia. • The physical characteristics or location of the land title are not such as to require the application of unusual or unusually costly infrastructure, design, or installation techniques in order for the connection to be made; and • Are not otherwise considered unserviced land in accordance with the unserviced land section below. Land titles that do not meet the criteria listed above are unserviced for sewer.

13.3 Renaming of water and sewerage fixed prices

For the PSP5 period, we have proposed to rename water and sewerage fixed charges to "access" charges, to enhance clarity for customers. The proposed changes are provided in Table 13.2. We have update our proposed customer contract and policies to reflect this change.

Table 13.2. Proposed nomenclature for fixed charges in PSP5

PSP4 Approved Nomenclature	Proposed PSP5 Nomenclature
Water – Fixed charges	Water Access Charge
Sewerage – Fixed charges	Sewerage Access Charge
Maximum water service charge for unconnected properties within serviced land	Water access charge for unconnected properties within serviced land
Maximum sewerage service charge for unconnected properties within serviced land	Sewerage access charge for unconnected properties within serviced land

13.4 Regulated water prices

Water access charge – full-service

The fixed component of our water price is shown in Table 13.3. All connections greater than 20mm are derived by applying a multiplier to the 20mm connection price. This accounts for the cost of providing extra system capacity needed to supply water to connections of a larger size.

Water access charge – limited supply

Limited water supply customers do not receive the minimum pressure and flow that is guaranteed to customers under our serviced land definition. These customers pay 90 per cent of the fixed component for full-service customers to reflect the lower pressure and flow service levels (Table 13.4).

Table 13.3. Water access charge per connection size for full service customers, $

Connection size (mm)	Multi-plier	FY27	FY28	FY29	FY30
20	1.00	345.73	376.15	409.25	445.27
25	1.56	539.33	586.79	638.43	694.61
30	2.25	777.88	846.34	920.82	1,001.85
32	2.56	885.06	962.94	1,047.68	1,139.88
40	4.00	1,382.91	1,504.60	1,637.01	1,781.06
50	6.25	2,160.79	2,350.94	2,557.82	2,782.91
65	10.56	3,650.87	3,972.15	4,321.70	4,702.01
75	14.06	4,860.91	5,288.67	5,754.08	6,260.44
80	16.00	5,531.62	6,018.41	6,548.03	7,124.25
100	25.00	8,643.16	9,403.76	10,231.29	11,131.64
150	56.25	19,447.11	21,158.46	23,020.40	25,046.20
200	100.00	34,572.64	37,615.04	40,925.16	44,526.57
250	156.25	54,019.76	58,773.49	63,945.56	69,572.77

Variable water charge

The variable component of the water price covers the cost to pump and treat water for delivery to customer properties. Limited water quality customers pay 80 per cent of the variable water price to compensate for measures they need to take as result of not receiving our standard water quality, such as boiling water for drinking purposes (Table 13.5).

Table 13.4. Water access charge per connection size for limited supply customers, $

Connection size (mm)	Multi-plier	FY27	FY28	FY29	FY30
20	1.00	311.15	338.54	368.33	400.74

Table 13.5. Variable water charge per kilolitre of water, $

Parameter	FY27	FY28	FY29	FY30
Full service (i.e. water of drinking water quality)	1.81	1.97	2.14	2.33
Limited water quality	1.45	1.57	1.71	1.86

Table 13.6. Water prices – fire service charges, $

Connection size (mm)	Multi-plier	FY27	FY28	FY29	FY3(
20	1.00	86.43	94.04	102.31	111.32
25	1.56	134.83	146.70	159.61	173.65
30	2.25	194.47	211.58	230.20	250.46
32	2.56	221.26	240.74	261.92	284.97
40	4.00	345.73	376.15	409.25	445.27
50	6.25	540.20	587.73	639.46	695.73
65	10.56	912.72	993.04	1,080.42	1,175.50
75	14.06	1,215.23	1,322.17	1,438.52	1,565.11
80	16.00	1,382.91	1,504.60	1,637.01	1,781.06
100	25.00	2,160.79	2,350.94	2,557.82	2,782.91
150	56.25	4,861.78	5,289.61	5,755.10	6,261.55
200	100.00	8,643.16	9,403.76	10,231.29	11,131.64
250	156.25	13,504.94	14,693.37	15,986.39	17,393.19

Fire service charge

Fire service charges recover the cost of supplying customers with water for fire sprinklers and/or fire hydrants that meet Australian Building Code requirements. They include a mix of fixed and miscellaneous price components. Consistent with PSP4, the fire service charge for the PSP5 period will continue to be set at 25 per cent of the fixed water price for the relevant connection size (Table 13.6).

Water access charge for unconnected properties within serviced land

A charge is levied on properties that are within water serviced land area but are not connected to the network. If this was not the case, properties currently connected would carry the burden of those not currently connected. This charge represents the fixed 20mm water price and is designed to share more broadly the cost of our infrastructure in areas that may benefit from our services (Table 13.7). The retention of this charge is consistent with the findings of the TER's *Inquiry into service charges*.

Table 13.7. Water access charges for unconnected properties in serviced land, $

Parameter	FY27	FY28	FY29	FY30
Unconnected properties in serviced land	345.73	376.15	409.25	445.27

13.5 Regulated sewerage prices

Sewerage access charges for full-service customer

We have outlined our proposal to move to fixed and variable sewerage charges in *Chapter 12 Our proposed price structures*. As part of this, will propose to cease using ETs as the basis for sewerage fixed pricing, consistent with the TER's Inquiry into sewerage charging and customer feedback.

For residential customers, a minimum sewerage access charge per customer per installation[73] will be applied. For example, where there are multiple

73 'Installation' is defined as a single dwelling, unit or lot that is provided a sewerage service. Each dwelling, unit or lot will attract a minimum sewerage fixed charge.

Table 13.8. Sewerage access charge per water connection size for full-service non-residential customers, $

Connection size (mm)	Multi-plier	FY27	FY28	FY29	FY30
20	1.00	667.54	726.28	790.19	859.73
25	1.56	1,041.36	1,132.99	1,232.70	1,341.18
30	2.25	1,501.96	1,634.13	1,777.93	1,934.39
32	2.56	1,708.89	1,859.27	2,022.89	2,200.90
40	4.00	2,670.14	2,905.11	3,160.77	3,438.91
50	6.25	4,172.10	4,539.24	4,938.70	5,373.30
65	10.56	7,049.18	7,669.50	8,344.42	9,078.73
75	14.06	9,385.55	10,211.48	11,110.09	12,087.78
80	16.00	10,680.57	11,620.46	12,643.06	13,755.65
100	25.00	16,688.39	18,156.97	19,754.78	21,493.20
150	56.25	37,548.88	40,853.18	44,448.26	48,359.71
200	100.00	66,753.56	72,627.87	79,019.13	85,972.81
250	156.25	104,302.44	113,481.05	123,467.39	134,332.52

residential dwellings or units at one installation, the customer will be charged the minimum access charge amount multiplied by the number of dwellings or units.

For non-residential customers, the sewerage fixed charge would be scaled up to reflect the size of each customer's connection, using a 20mm standard connection as the base and multiplied by the regulated connection size multiplier.

The sewerage access charge for full service is set out in Table 13.8. The proposed minimum sewerage access charge is $667.54 per annum. Worked examples of how the sewerage access charge is applied for residential and non-residential customers are provided in *Chapter 12 Our proposed price structures*.

Sewerage access charge for unconnected properties within serviced land

A charge is levied on properties that are within serviced land area but are not connected to the network (Table 13.9). The retention of this charge is consistent with the findings of the TER's Inquiry into service charges.

Table 13.9. Sewerage access charges for unconnected properties in serviced land, $

Parameter	FY27	FY28	FY29	FY30
Unconnected properties in serviced land	510.28	555.19	604.04	657.20

Sewerage variable charges for full-service customer

The sewerage variable charge will be applied to an assumed volume (kL) of customers' discharge to the sewer network. This assumed volume is calculated by multiplying the customer's metered water volume (kL) by a discharge factor.

The new proposed sewerage variable charge is $1.10 per kL (Table 13.10).

For residential customers, the discharge factor is 90 per cent of metered water usage. Residential customers will have their assumed sewerage volume capped at a maximum of 240kL per year.

For non-residential customers, we propose to apply category-specific discharge factors, as outlined in Table 13.11.

Table 13.10 Variable sewerage charge, $ kL

	FY27	FY28	FY29	FY30
Sewerage variable charge	1.10	1.20	1.30	1.42

Table 13.11. Variable discharge factors by customer categories

Customer Category Descriptions	Sewerage variable discharge factor
Residential	
Residential	0.90
Vacant - Residential	0.00
Residential	
Medical	0.90
Aged Care	0.90
Retail - indoor	0.90
Business	0.90
Retail - outdoor	0.50
Community - indoor	0.90
Commercial - fabrication and manufacturing	0.90
Community - outdoor	0.70
Child Care Centres	0.80
Educational	0.80
Services	0.90
Hospitality	0.90
Accommodation	0.90
Sporting Clubs	0.70
Undefined	0.90
Commercial - beverage	0.25
Unknown	0.90
Vacant - non-residential	0.00

Residential sewerage discharge cap

For charging purposes, residential customers will have their estimated sewerage discharge capped at 240kL per year. This results in residential customers with discharge great than 240kL paying a maximum amount per year for sewerage discharge (Table 13.12).

Table 13.12 Residential sewerage discharge cap, kL/an and maximum variable charge, $,kL

	FY27	FY28	FY29	FY30
Discharge cap, kL	240	240	240	240
Maximum sewerage variable charge, $/an	264.35	287.61	312.92	340.46

Fixed sewerage charges for motor home dump points and unconnected properties in serviced land

The portion of the fixed sewerage charge for motor home dump points and unconnected properties within serviced land is set out in Table 13.13. Motor home dump points are considered to be equivalent to one 20mm full-service customer. Unconnected properties in serviced land are assessed at 60 per cent of a full-service connection.

Table 13.13. Fixed sewerage charge per connection size for motor home dump points and unconnected, $

	FY27	FY28	FY29	FY30
Motor home dump points	667.54	726.28	790.19	859.73
Unconnected properties in serviced land	400.52	435.77	474.11	515.84

STED schemes – sewerage charge

We operate a small number of STED schemes that take liquid waste from customers' septic tanks through the network to a treatment plant. Customers in these areas buy and maintain their own septic tanks and engage a contractor to undertake maintenance, such as desludging. Properties within STED scheme areas are charged at 70 per cent of a full-service connection. These proposed prices are provided in Table 13.14.

Table 13.14. STED scheme sewerage prices, $

Parameter	FY27	FY28	FY29	FY30
STED scheme	467.27	508.40	553.13	601.81

13.6 Miscellaneous service prices

In addition to water and sewerage prices, we need to recover the costs of any ad-hoc activities connected to those services. This is done through miscellaneous prices. The proposed miscellaneous service prices for PSP5 are set out in Table 13.15.

We have provided a complete list of all of the proposed prices for this PSP5 Proposal in *Appendix E Schedule of proposed water and sewerage charges.*

Table 13.15. Miscellaneous service prices, $

Miscellaneous services	FY27	FY28	FY29	FY30
Water Metering Fees				
Special meter reads	74.56	76.59	78.68	80.82
Meter testing - onsite	97.77	100.44	103.17	105.98
Meter testing - offsite	POA	POA	POA	POA
Sundry Fees				
Restriction charge	129.34	132.87	136.49	140.21
Account establishment	30.75	31.59	32.45	33.33
Account administration bounced payments (per transaction)	8.72	8.96	9.20	9.45
Fire service installation, $	POA	POA	POA	POA
Service locater fee, $	115.72	118.88	122.12	125.44
Property Information Plan, $	55.95	57.48	59.04	60.65
Backflow Prevention Management, $	POA	POA	POA	POA
Sewerage discharge factor review, $	484.34	497.53	511.09	525.01
Other regulated services				
Private filling stations, fixed charge per annum for 20mm, scaled by size, $	446.78	486.10	528.88	575.42
Private filling station, $/kL	1.38	1.51	1.64	1.78
Security deposit, one off fee for public filling stations	61.50	63.17	64.90	66.66
Public filling station - Account keeping fee (per account)	7.42	8.07	8.78	9.56
Public filling stations, $/kL	2.13	2.32	2.52	2.75
Portable metered standpipes, fixed charge per annum for 20mm, scaled by size	446.78	486.10	528.88	575.42
Portable metered standpipes, $/kL	1.38	1.51	1.64	1.78

13.7 Proposed customer contract

Consistent with our requirements we are proposing a new customer contract with this PSP5 Proposal.

Using the existing PSP4 customer contract as a basis, we have reviewed and updated our proposed PSP5 customer contract. Our proposed changes attempt to provide greater clarity by including simplified language, removing duplication, and some reordering of clauses. In addition, all proposed changes in the PSP5 Proposal that are relevant to the contract have been updated in the PSP5 contract. Further detail regarding the proposed changes is provided in *Appendix F. Customer Contract*.

13.8 Proposed supporting policies

The application of our regulated prices are supported by a number of policies. These policies help clarify how and when certain prices can be applied and provide guidance on the approach to apply prices and charges. These policies (and in one case process) are:

- Appendix G. Connections
- Appendix H. Access charges
- Appendix J. Service Extension and Expansion
- Appendix K. Service Introduction Policy
- Appendix L. Service Replacement Process

Our review of PSP5 supporting policies did not result in significant changes to the pre-existing policies. In nearly all cases, proposed changes are to improve clarity for customers and TasWater in the application of the policy.

We have, however, proposed the re-introduction of a sub-metering policy for PSP5. We believe that the re-introduction of a sub-metering policy will provide greater clarity for metering at multi-dwelling sites. With the move to greater variability of water and sewerage pricing, along with our other tariff reform proposals, a sub-metering policy will best support fair and accurate billing.

The new sub-metering policy would apply to new developments and is provided at Appendix I Sub-metering policy.

13.9 Service introduction and service replacement

We do not have any service introductions or service replacement projects planned for PSP5.

13.10. Bill presentation

We are not proposing a change to how our bill is presented as part of this PSP5 Proposal. We note that should our proposed changes to price structures and nomenclature be approved, this would need to be presented inminor changes to bill presentation. We would prepare these changes consistent with the requirements of the TER's Customer Service Code. We are also committed to providing supporting information to customers about any changes to prices throughout the time new prices are implemented around 1 July 2026.

13.11 Unregulated revenue

The forecast demand and revenue from our customers with section 61 contracts (e.g. Category 3 and 4 industrial trade waste customers) and other services that are not price regulated will be provided as supporting information to this PSP5 Proposal. The costs and revenue for these services are not included in our proposed regulated water and sewerage prices.

Appendices for *Chapter 13 Our proposed water and sewerage prices*

- Appendix E. Schedule of proposed water and sewerage charges
- Appendix F. Customer Contract
- Appendix G. Connections Policy
- Appendix H. Access Charges Policy
- Appendix I. Sub-metering Policy
- Appendix J. Service Extension Policy
- Appendix K. Service Introduction Policy
- Appendix L. Service Replacement Process

14. Our proposed trade waste charges

Our proposed approach to commercial trade waste prices

- We have reviewed our regulated trade waste prices for commercial customers in preparation for PSP5.
- We aim to set these charges in a way that is equitable, transparent, cost-reflective and easy for customers to understand.
- An extensive review into trade waste pricing has determined more meaningful and easier to understand customer categories and an improved cost-reflective pricing structure. Our proposed trade waste pricing approach is consistent with industry best practice.
- We have included detailed customer price impact modelling in this PSP5 Proposal.
- Under the new charges, 64 per cent of commercial trade waste customers will pay less (when considered exclusive of the proposed PSP5 price increase).
- Our proposal for trade waste prices will result in more cost reflective and equitable regulated trade waste charges. This brings Tasmania in line with national industry best practice and will result in better outcomes for trade waste treatment and customers in the long-term.

This section of our submission outlines our approach to commercial trade waste and developer charges in PSP5, it includes:

14.1 Background to trade waste charges

14.2 Improving our trade waste charges: A more cost-reflective approach

14.3 Proposed trade waste charges approach

14.4 Customer price impacts: 64 per cent of customers will pay less

14.5 Industrial trade waste charges

14.1 Background to trade waste charges

Trade waste is the component of sewage that is not residential or domestic by its nature. It is generated by industrial or commercial processes and discharged to our sewerage system. Due to its nature and strength, trade waste can represent a greater load on our sewerage network and sewage treatment plants and consequently drive additional costs in our systems.

Due to the additional costs trade waste incurs on our operations, we apply trade waste charges with the aim to recover costs associated with trade waste treatment. In this way, trade waste charges are a practical application of the accepted 'polluter pays' principles.

Our approximately 4,000 commercial trade waste customers are price regulated. Commercial trade waste customers carry out business activities such as restaurants, cafés, hairdressers and bakeries. A smaller number of larger industrial trade waste customers are not price regulated.

In October 2024, the TER completed an Inquiry into Trade Waste Charging. Based on our review of trade waste charges, we proposed a new charging structure that we believe is more cost reflective, easier for customers to understand and easier to administer.

At the time of completing the inquiry, the TER was not convinced that a case for change to trade waste charges existed, in part due to a lack of customer price impact modelling, which we acknowledge we had not completed at that stage. The TER noted that we should include the customer impact modelling for any proposed changes to trade waste charges in this PSP5 Proposal.

In this PSP5 Proposal, we continue to propose a change to the structure and approach to trade waste charges, that are more cost reflective and clearer for customers. We acknowledge the TER's previous concern and as part of our proposal we have:

- Provided detailed calculations and justifications for the build-up of new cost reflective charges.
- Performed detailed customer impact modelling, summarised in this chapter but provided in detail as supporting information.

14.2 Improving our trade waste charges: A more cost-reflective approach

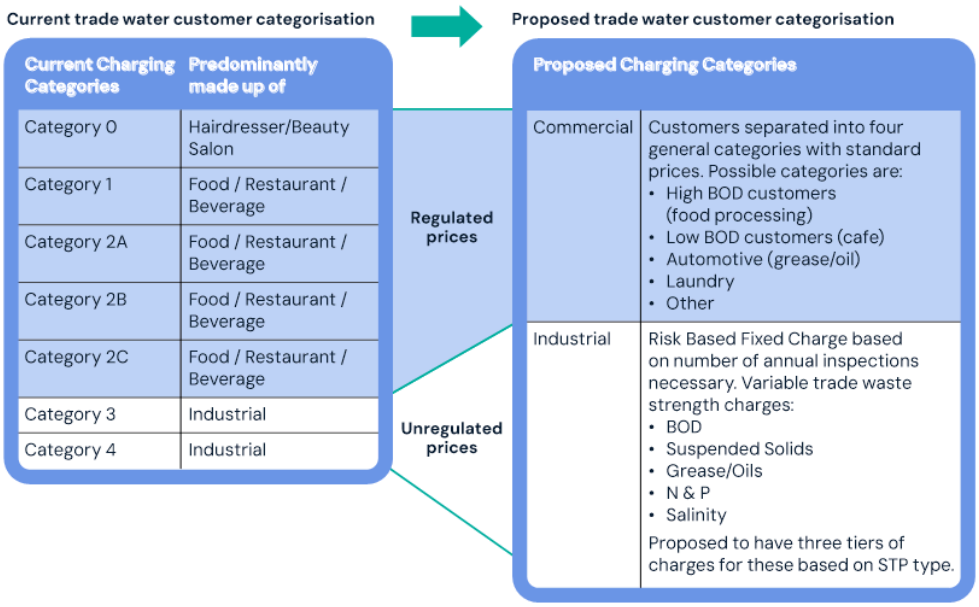
We have undertaken a review of trade waste management and charging in preparation for the PSP5 proposal. The principles that underpin our revised approach to trade waste charging for our commercial customers are:

- Trade waste quality charges will assume that the cost of treating the 'domestic equivalent' mass is covered by the sewerage fixed and usage charge.
- Trade Waste charges will be based on a 'Cost to Serve' and a 'Cost to Treat' approach to calculating the tariffs
- Cost to Serve charges will be based on the efficient administrative cost of providing the service
- Cost to Treat charges, or trade waste quality charges, will be based on an aggregate operational cost of TasWater treating the substances at its sewage treatment plants

We have also proposed a changed approach to customer categorisation, making our categorisation simpler and more transparent for customers. The current and proposed categories are outlined in Figure 14.1.

In addition, a new trade waste policy has been prepared to incorporate the above-mentioned changes. The trade waste policy is provided as *Appendix M*.

Figure 14.1. Current and proposed trade waste customer categories



14.3 Proposed trade waste charges approach

Cost to Serve fees

Cost to Serve fees are fixed charges levied for a specific service as a payment for the service. It is generally transactional in nature and covers efficient administrative effort. The basis for the fee mentioned below will be the averaged assessment time x the corporate charge out rate ($/hour).

Cost to Serve fees include:

1. **Application fee** – The application fee is an up-front payment that covers the cost of assessing whether TasWater can accept a trade waste discharge. The reason for it being an upfront payment is that the assessment may not result in permission, but it is reasonable for TasWater to provide this service and recover reasonable costs.
2. **Commercial consent fee** – Should a commercial application be assessed as acceptable; the customer will be issued a consent document. The consent assumes that the customer will install pretreatment and maintain it. TasWater will monitor the Consent to ensure the customer complies with the conditions at installation and throughout the year. The annual consent fee will cover the averaged time taken to monitor a Commercial Consent.
3. **Additional inspection fee** – There will be circumstances where TasWater will need to reinspect sites more often than the expectations contained within the consent fee. This is particularly the case if a customer is in default of approval conditions.

Cost to Treat Fee

The cost to treat trade waste generated by a discharger will be recovered through volumetric quality and fixed charges. We propose that trade waste charges should recover the reasonable

costs of discharging wastewater of a strength that is greater than domestic discharge.

TasWater's sewage treatment plants have been designed to treat sewage that is received from residential households. As such, the only substances that will be charged for are those that a sewage treatment plant was designed to treat.

Trade waste costs exclude the treatment cost of domestic strength wastewater, as well as the majority of network costs such as pumping and network maintenance. These costs are recovered through the proposed sewerage charges applied to all wastewater customers (including trade waste customers).

The chargeable substances applicable to commercial trade waste dischargers are:

1. Biochemical Oxygen Demand (BOD5)
2. Suspended solids
3. Grease
4. Nitrogen

To determine the new proposed trade waste charges, a 'cost to treat' has been determined for each chargeable substance, derived by selecting various types of sewage treatment plants and investigating the costs to treat these substances.

The five charging bands represent different customer categories that have broadly similar effluent quality, and a fifth 'other' charging band that include business processes that are difficult to quantify due to their variability and relatively low impact on treatment. Table 14.2 outlines the proposed commercial charging bands.

Table 14.2. Proposed commercial trade waste charging bands

Charging band	Business process examples
Commercial – low strength BOD	Café, restaurants, take away food, function centres, caterers, commercial kitchen, retail butcher
Commercial – high strength BOD	Combi-oven, duck roaster, bakery, bubble tea house, nano and microbrewery <12kL/day discharge, smallgoods <5kL/day discharge, distillery <4kL/day discharge, cottage food manufacturer <8 kL/day, doughnut shop
Automotive	Mechanical workshop, car wash, truck wash – external wash only, covered equipment wash bay
Laundry	Commercial laundry <12kL/day discharge, laundromat, in-house laundry
Other	Kennels, science laboratory, pottery, dental technician, plaster room, boiler blow down

If a customer cannot install prescribed pretreatment, or pretreatment is not maintained, a non-compliance rate will be used which will be five times the compliant charging rate.

The basis for each charging band is based upon the average effluent quality produced by a customer allocated to a charging band. Table 14.3 provides the charging bands and the average effluent quality that forms the basis for the cost to treat amounts in Table 14.4.

Table 14.1. Commercial trade waste cost to serve fixed charges, $nominal

	FY27	FY28	FY29	FY30
Application fee (One off)	229.16	249.33	271.27	295.14
Commercial consent fee (Annual)	458.32	498.65	542.53	590.27
Additional inspection fee (As required)	152.77	166.22	180.84	196.76

Table 14.3. Charging bands by charging effluent quality

Charging band	Charging effluent quality
Commercial – low strength BOD	$/kL based on effluent quality of: BOD5 2300mg/L Suspended solids 640 mg/L Grease 405 mg/L Nitrogen 80 mg/L Phosphorus 30 mg/L **Less domestic equivalent**
Commercial – high strength BOD	$/kL based on effluent quality of: BOD5 4500mg/L Suspended solids 800 mg/L Grease 525 mg/L Nitrogen 80 mg/L Phosphorus 30 mg/L **Less domestic equivalent**
Automotive	$/kL based on effluent quality of: BOD5 1500mg/L Suspended solids 300 mg/L Grease 70 mg/L Phosphorus 20mg/L **Less domestic equivalent**
Laundry	$/kL based on effluent quality of: BOD5 300mg/L Suspended solids 300 mg/L Grease 60 mg/L Phosphorus 40mg/L **Less domestic equivalent**
Other	Flat rate charge per process

Table 14.4 (see page 194) provides the determined cost to treat charging rates in FY2023-24 dollars. The cost to treat has been applied to a typical effluent quality for each charging band, resulting in the ($/kL) charges. The typical effluent quality for the charging band is based on industry benchmark[74].

Table 14.5 outlines the proposed cost to treat charging rates during the PSP5 period and are based upon the cost to treat charging rates mentioned in Table 14.4.

Table 14.5. Cost to treat by charging band, $/kL

	FY27	FY28	FY29	FY30
Commercial – low strength BOD	2.28	2.48	2.70	2.93
Commercial – high strength BOD	4.11	4.47	4.86	5.29
Mechanical	1.00	1.09	1.18	1.29
Laundry	0.10	0.11	0.12	0.13
Other*	116.55	126.81	137.96	150.11

*all other business processes will be charged a flat rate $/year.

Table 14.4. Cost to treat by charging band, $/kL ($FY24 dollar terms)

		Charging Band / Charging Rate $/kL				
Substance	Cost to treat ($/kg) FY2024	Commercial – low strength BOD	Commercial – high strength BOD	Automotive	Laundry	Other
Biochemical Oxygen Demand	0.64	1.30	2.70	0.79	0.03	All remaining business processes will be charged at a flat rate of $100 per annum.
Suspended solids	0.34	0.15	0.20	0.03	0.03	
Grease	0.99	0.36	0.48	0.03	0.02	
Nitrogen	4.04	0.14	0.14	0.00	0.00	
Compliant Charging Rate $/kL		**1.95**	**3.52**	**0.86**	**0.09**	
Non-compliant Charging Rate $/kL		**9.75**	**17.60**	**4.30**	**0.45**	

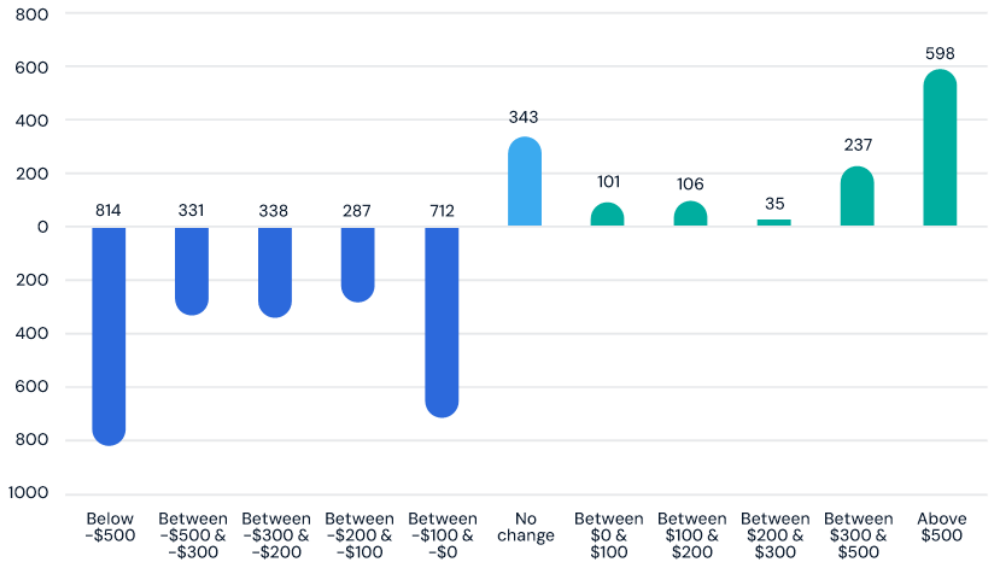
74 This is based on Water Services Association of Australia Trade Waste Guidance for Water Utilities (August 2024) and is applied in other jurisdictions.

For the purposes of trade waste pricing, usage is determined by applying a trade waste discharge factor to a customer's water usage. This is consistent with the current application of a trade waste discharge factor for the calculation of trade waste customer risk scores and is proposed to be used as a basis for the variable component of charging in PSP5. The trade waste discharge factors are provided in *Appendix M Trade Waste Policy*.

14.4 Customer price impacts: 64 per cent of customers will pay less

We have approximately 3,900 commercial trade waste customers that cover a vast range of commercial business across the state. With the proposed changes, there will be customers that will pay less and some that pay more, based on the costs that their trade waste drive in our system. When comparing the move to a more cost reflective tariffs relative to the current structure while holding all else constant (i.e. no price increase), 64 per cent of commercial trade waste customers will pay less (relative to current trade waste charge structures). A summary of the customer cohort is provided in Figure 14.2.

Figure 14.2. Commercial trade waste customer impacts (no price increase)



With the proposed price increase of 8.8 per cent, 46 per cent of the commercial trade waste customers will pay less in 2026-27. Table 14.6 provides examples of the potential customer impacts for different customers depending on their varying level of usage and categorisation. Table 14.6 compares 2025-26 trade waste prices to proposed 2026-27 prices with an 8.8 per cent price increase.

Table 14.6. Customer impact example

Customer Example 1 – Take Away/Fast Food

Customer Category		FY26 ($ per annum)	Proposed FY27 ($ per annum)	Variance ($ per annum)
		Category 2A	Low BOD Customer	
Fixed Charge		1,108.72	458.32	**-650.40**
Variable Charge				
Usage (kL)	570			
x Discharge Factor (DF)	75%			
= Usage DF (kL)	427.5			
x Variable Rate	2.28	-	973.48	**973.48**
Total Charge		**1,108.72**	**1,431.80**	**323.08**

Pay more

Customer Example 2 – Bakery – Cakes and Bread

Customer Category		FY26 ($ per annum)	Proposed FY27 ($ per annum)	Variance ($ per annum)
		Category 2A	High BOD Customer	
Fixed Charge		1,108.72	458.32	**-650.40**
Variable Charge				
Usage (kL)	620			
x Discharge Factor (DF)	30%			
= Usage DF (kL)	186			
x Variable Rate	4.11	-	764.13	**764.13**
Total Charge		**1,108.72**	**1,222.44**	**113.73**

Pay more

We note that the total revenue received from commercial trade waste customers will increase by approximately 12 per cent ($0.4 million) under the proposal for cost reflective prices. This reduces the charges that would otherwise be faced by standard sewerage customers and ensures that regulated trade waste customers contribute equitably, based on the costs they impose on the sewerage system.

Customer Example 3 – Laundromat (Coin Operated)

Customer Category		FY26 ($ per annum)	Proposed FY27 ($ per annum)	Variance ($ per annum)
		Category 1	Laundry	
Fixed Charge		676.36	458.32	**-218.04**
Variable Charge				
Usage (kL)	1,200			
x Discharge Factor (DF)	92%			
= Usage DF (kL)	1,104			
x Variable Rate	0.10	-	109.70	**109.70**
Total Charge		**676.36**	**568.02**	**-108.34**

Pay less

Customer Example 4 – Automotive Service/Repair

Customer Category		FY26 ($ per annum)	Proposed FY27 ($ per annum)	Variance ($ per annum)
		Category 2A	Automotive	
Fixed Charge		676.36	458.32	**-218.04**
Variable Charge				
Usage (kL)	450			
x Discharge Factor (DF)	80%			
= Usage DF (kL)	360			
x Variable Rate	1.00	-	359.96	**359.96**
Total Charge		**1,108.72**	**818.28**	**-290.44**

Pay less

Customer Example 5 – Commercial swimming Pool

Customer Category	FY26 ($ per annum)	Proposed FY27 ($ per annum)	Variance ($ per annum)
	Category 1	Other	
Fixed Charge	676.36	458.32	**-238.15**
Variable Charge	-	116.55	**100.00**
Total Charge	**631.39**	**493.24**	**-138.15**

Pay less

14.5 Industrial trade waste charges

In 2024, we proposed regulating trade waste charges for industrial trade waste customers. However, the TER decided that the next regulatory period may not be an appropriate time to implement price regulation for industrial trade waste customers. Trade waste charges for these customers are therefore to remain unregulated for the period between 1 July 2026 and 30 June 2030.

We remain of the view that price regulation for industrial customers would improve outcomes for customers and the provision of these services. Regulating prices for industrial (category 3 and 4) trade waste customers will:

- Provide for independent oversight of pricing whereby customers will be charged based on a uniformed approach across Tasmania.
- Be simpler for customers to understand and provide customers and private market with further transparency in the price setting process.
- Reduce the administrative effort for TasWater and customers to assess and agree on pricing arrangements.
- Provide a common framework for all trade waste customers, given some business types will move from commercial (lower quality) categories to the industrial category if their business expands.

We suggest that the introduction of price regulation for industrial trade waste customers should be considered for the PSP6 period.

Appendix for *Chapter 14 Our trade waste charges*

- Appendix M. Trade Waste Policy

15. Our proposed developer charges

Our proposed approach to enabling development and growth in Tasmania

- We have an important role in supporting industry and growth in Tasmania.
- We must continue to invest in our infrastructure to support growth. These growth-related investments have been considered in our proposed capital investment plans.
- Growth assumptions have been informed by the State Government and local councils across the state.
- We continue to propose a developer charge as the most appropriate way to recover the cost of servicing growth from future customers. In this way, we work towards the principle that 'growth pays for growth'.
- Developer contributions are received from developers as assets which are transferred to TasWater after the development is built and as a cash charge, known as a "Headworks charge".
- We introduced a new standard Headworks charge for development in PSP4, which has been successfully implemented.
- Following a review of the Headworks charge, this PSP5 Proposal includes a continuation of single, statewide Headworks charge for PSP5.
- A single statewide Headworks charge will not disincentivise development in smaller locations where development is seen as crucial to that community.
- We are proposing some refinements to the methodology to create more cost-reflective developer charge, reflecting new developments share of existing assets.
- This results in Headworks charges of $4,753 and $2,295 respectively for water and sewerage across the state.
- Applying cost reflective Headworks charges ensures that current customers are not paying for new customers, and that growth can be sufficiently funded by new customers.

This section of our submission outlines our This section of our submission outlines our approach to developer charges in PSP5, it includes:

15.1 The intent of developer charges is that 'growth pays for growth'

15.2 Headworks charges were re-introduced in PSP4

15.3 Proposed refinements to our Headworks charges in PSP5

15.4 Updates to development service miscellaneous fees and charges

15.1 The intent of developer charges is that 'growth pays for growth'

What are developer charges?

Developer charges are upfront charges applied to developers (and subsequently recovered from property owners) as a condition of connection to our water and sewerage network infrastructure. Developers will also build assets for new developments that subsequently form part of our asset base in the future.

Developer charges for water and sewerage services have been adopted in every jurisdiction in Australia[68]. Like all prices, cost-reflective developer charges are important for promoting efficient investment and consumption decisions. Specifically, they:

- Promote efficient development (i.e. development where benefits exceed costs), as developers face the true costs of development in a location.
- Promote innovation and lower cost servicing solutions over time, by transparently presenting the costs of servicing growth.
- Help to ensure the utility efficiently recovers its costs of providing services to new development, while reducing costs to existing customers.
- Promote equitable cost recovery – as those who create the need for new infrastructure incur the cost.

Developer charges are one component of the charges levied by water businesses to recover their costs. They are in addition to trade waste charges and standard fixed and variable recurrent charges for water and sewerage services. They serve to recover the costs of new infrastructure or spare capacity from the new customers that benefit from those assets.

What works are covered by developer charges in Tasmania?

With regards to developer works and contributions, we distinguish between the following types of infrastructure:

- **Works internal:** Reticulation assets within the development built by the developer and usually then gifted to the utility. These are known as 'works internal' to the development and are typically water and sewer reticulation mains but may include other more complex assets such as reservoirs and pump stations.
- **Works external:** Extensions to connect to an existing network put in by the developer and 'works external to the development' and typically include extensions to existing water and sewer networks to provide service only for the proposed development.
- **Headworks charges:** These are cash payments (known as 'Headworks charges'). The charges are based on defined costs of new or existing 'headworks' assets deemed to be attributable to development. Headworks assets could be reservoirs, treatment plants, main sewers and distribution assets like supply mains, distribution mains and pump stations, but they exclude reticulation pipework that connects properties to the headworks.

In the past in Tasmania, different approaches to developer charges have been adopted by the various councils, regional water corporations and then TasWater. At different stages, Headworks charges did not apply at all.

15.2 Headworks charges were re-introduced in PSP4

The TER accepted our proposal to reintroduce a single, statewide Headworks charge in Year 2 of the PSP4 period. The Headworks (standard) charge was set at $3,514 per equivalent tenement (covering both water and sewerage). We also had approved a charge additional to the Headworks charge, titled a 'Bulk Infrastructure Capacity Charge' which applied where developments occurred outside TasWater's Growth and Capacity Plans.

The Headworks (standard) charge was determined on a net incremental cost approach. The net incremental cost approach considers the net incremental capital and operating costs driven by new customers, minus the net incremental revenue to be received from those

75 IPART, Maximum prices to connect, extend or upgrade a service for metropolitan water agencies, final report, 2018.

new customers over time. This general approach is an accepted method for calculating developer charges and is currently adopted by other economic regulators.

This introduction has been made successfully with the development community in PSP4.

15.3 Proposed refinements to our Headworks charges in PSP5

Review of Headworks charges approach

We propose to continue the standard Headworks charges in PSP5, with some refinements to the methodology for calculating the Headworks charge. The proposed changes are based on the overarching principle that charges should be cost reflective. That is, Headworks charges should reflect the efficient net incremental cost to service a new development and that 'growth pays for growth'.

As in PSP4, we assessed the feasibility for regional based Headworks charges. We found there to be large variability in charges across regions, due to the many, relatively small water sewerage systems we operate, and the uneven investment patterns across the state.

Based on the above, and to facilitate development outlined in the State Government and local council planning schemes, we are proposing to maintain a single, statewide charge for the PSP5 period.

This aligns with feedback from the development community, which has reinforced the need for the following principles to be considered:

- **Simplicity:** The charges should be simple for developers to understand and simple for TasWater to implement and administer.
- **Transparent and stable:** The methodology should be clear and transparent to ensure that developers have a clear line of sight and to have a level of confidence and predictability.

Together, these factors address developers' concerns and increase certainty, lower risk and support development.

For PSP5, we are proposing to include a portion of existing capital expenditure into the Headworks charges calculation methodology that has been incurred to service new development. This reflects the recovery, from new development, of capital investment in our water and sewerage headworks assets that has been incurred to service growth, noting that (to take advantage of economies of scale) many water and sewerage assets are not sized simply service existing customers.

The time period we have considered is from 2016, ten years prior to the start of PSP5. We have adjusted the amount of actual growth capital investment to reflect the spare capacity used by actual growth since 2016, leaving the remainder to be recovered from future new customers.

Our assessment is that the proposed refinements to the methodology are consistent with the pricing regulations[76] and the National Water Initiative pricing principles that guide how developer charges are calculated and applied for water and sewerage services.

Proposed Headworks charge methodology

TasWater will continue to impose Headworks charges to all new development within the state. The current 'standard' charge in PSP4 is proposed to be renamed to a 'headworks' charge.

The PSP5 Headworks charge maintains the statewide approach with a charge applied to each new water connection and each new sewerage connection.

The methodological basis for the charge is unchanged, using the same building blocks to determine cost:

+ NPV incremental capex driven by new customers.
+ NPV forecast opex driven by new customers.
- NPV forecast revenue from new customers.

76 Water and Sewerage Industry (Pricing and Related Matters) Regulations 2021

Importantly, the proposed PSP5 refinements are to:

- include, in calculating the incremental NPV, all existing and planned assets used to serve growth for the period 1 July 2016 to 30 June 2047.
- calculate separate water and sewerage Headworks charges based upon the building block components specific to water and sewer rather than the blended calculation included in PSP4.

The proposed Headworks charges for both water and sewerage combined will be $7,048 per standard 20mm water connection in 2026-27. We propose to increase these charges by forecast inflation for the period. The proposed Headworks charge are presented in Table 15.1.

The Developer Charges Policy (Appendix N) has been refined to outline our charging methodology.

The new Headworks charges are proposed to be applied in the following way:

- The water Headworks charge is calculated and applied per water 20mm standard connection. For larger connection sizes, the regulated multiplier is applied to the standard charge based upon the size of the connection.
- The sewer Headworks charge is calculated per water 20mm standard connection basis. For larger connection sizes, the regulated multiplier is applied based upon the size of the water connection. A sewage discharge factor is then applied, on the same basis as sewerage variable pricing. This is designed to reflect the development's expected discharge into the sewer system.

Removal of Bulk Infrastructure Capacity Charge

We are proposing the removal of the Bulk Infrastructure Capacity Charge.

Consultation Headworks charge methodology

We undertook an extensive stakeholder consultation process prior to the re-introduction of a standard charge in PSP4[77]. At that time (2020), At that time (2020), development industry representatives did not favour the re-introduction of a standard charge to cover the headworks investment necessary to recover costs related to growth, preferring that the cost of growth be shared in recurrent regulated water and sewerage charges (i.e. existing customers). Other key stakeholders, such as the Local Government Association of Tasmania, strongly supported the introduction of a standard charge, aligned with industry best practice in other jurisdictions. TasWater proposed, and the TER accepted, the application of a standard statewide charge, as it supported a cost-reflective and equitable recovery of growth-related expenditure.

In June 2024, we held Developer Forums across Tasmania, attended by members of the development community and interested stakeholders. As part of these forums we received informal feedback that the PSP4 standard charge had been successfully implemented. We also re-tested with the development community what was important to them with respect to developer charges. Their preference was that developer charges are as low as possible. In addition, they told us that they valued simplicity and certainty in the developer charges. We are balancing this against feedback from our existing customer

Table 15.1. Proposed headworks charges for PSP5, $/20mm standard water connection

	PSP4	FY27	FY28	FY29	FY30
Water	1,757	4,753	4,882	5,015	5,151
Sewer	1,757	2,295	2,357	2,422	2,487
Total	**3,514**	**7,048**	**7,239**	**7,436**	**7,639**

77 Marsden Jacob Associates (2020): TasWater: Developer Charges An Assessment of Options Final Report – Provided as part of the 2022 TER Price Determination Investigation.

base to keep prices affordable. We believe our proposal to refine the Headworks charge in PSP5 improves its equity and cost-reflectivity and is consistent with the pricing principles in the *Water Management Act 2008*.

15.4 Updates to development service miscellaneous fees and charges

We apply development services fees and charges to recover the costs of managing applications related to new developments and their connection to water and sewerage services. This includes assessing the impact of subdivisions on infrastructure, ensuring compliance with regulations and providing guidance on planning, building, and plumbing aspects related to our services.

These charges have been calculated on a cost build-up basis, based on the estimated average time to provide the service. Other proposed changes to these development services charges are that we propose to:

- Move some existing miscellaneous charges to under the heading of development services
- Remove the charge: Legacy certificate of compliance for applications made before 1 July 2018 application
- Propose two new charges, being:
  - Amendments to Certificate of Certifiable Works (CCW) and Engineering Design Approval (EDA) fees & Reassessment of expired EDAs (new charge for PSP5)
  - A 'Connections Applications Administrative Fee', including loose supply applications (new charge for PSP5)
- Restructure the CCW and Certificate of Compliance ("CCW & CoC") and Engineering Design Approval and Permit to Construct ("EDA & PTC") charge structure, moving from three to four charges for customer and administrative simplicity.

The proposed development service miscellaneous fees and charges for PSP5 are provided in Table 15.2.

Table 15.2 Development service miscellaneous fees and charges

	FY27	FY28	FY29	FY30
Connections, including relocations, disconnections and meter only				
Standard 20mm or non-standard water connection/relocation/disconnection charge	POA	POA	POA	POA
Standard 100mm or non-standard sewer connection/relocation/disconnection charge	POA	POA	POA	POA
Water metering fees				
Meter downsizing (40mm to 20mm)	473.64	515.32	560.67	610.01
Meter downsizing (all others)	POA	POA	POA	POA
With development application				
Certificates for Certifiable Works and Certificate of Compliance (DA - CCW & Coc)				
Minor	740.94	761.12	781.86	803.17
Medium	1,538.87	1,580.80	1,623.87	1,668.12
Major	2,735.76	2,810.31	2,886.88	2,965.54
Significant	2,735.76	2,810.31	2,886.88	2,965.54
Engineering Design Approval and Permit to Construct (includes inspections) (DA - EDA & PTC)				
Minor	1,538.87	1,580.80	1,623.87	1,668.12
Medium	4,730.59	4,859.49	4,991.90	5,127.92
Major	10,487.09	10,772.84	11,066.38	11,367.91
Significant	20,518.22	21,077.30	21,651.60	22,241.56

Table 15.2 Development service miscellaneous fees and charges *continued*

	FY27	FY28	FY29	FY30
Without development application				
Certificate for Certifiable Works and Certificate of Compliance (CCW & CoC)				
Minor	455.96	468.38	481.15	494.26
Medium	911.92	936.77	962.29	988.51
Major	1,538.87	1,580.80	1,623.87	1,668.12
Significant	1,538.87	1,580.80	1,623.87	1,668.12
CCW Exemption	284.98	292.74	300.72	308.91
Engineering Design Approval and Permit to Construct (includes inspections) (EDA & PTC)				
Minor	1,253.89	1,288.06	1,323.15	1,359.21
Medium	4,103.64	4,215.46	4,330.32	4,448.31
Major	9,290.19	9,543.33	9,803.37	10,070.48
Significant	20,518.22	21,077.30	21,651.60	22,241.56
Amendments to CCW's and EDA's & Reassessment of expired EDA's – new charge for PSP5				
Minor	284.98	292.74	300.72	308.91
Medium	911.92	936.77	962.29	988.51
Major	2,336.80	2,400.47	2,465.88	2,533.07
Other development fees and charges				
Consent to register a legal document	512.96	526.93	541.29	556.04
Section 56W Consent Fee	285.98	292.74	300.72	308.91
Inspection Costs	72.65	74.63	76.67	78.76
Additional Planning Assessment Fee*	79.26	81.42	83.64	85.92
Connections Applications Administrative Fee, including loose supply applications (new charge for PSP5)	227.98	234.19	240.57	247.13
Right of information request	50.00	51.36	52.76	54.20
Land Information Certificate (56ZQ) request	56.16	57.69	59.26	60.88
Pressure and Flow Testing – new connection. For multiple test points the additional time (field and administration) will be charged at 'Field inspection and supervision fee' rate.	129.14	132.65	136.27	139.98
Pressure and Flow Testing – Existing connection*, single point (where a no-charge test has been previously provided)	193.40	198.67	204.08	209.64
Field Inspection and supervision fee – $per hr	113.99	117.10	120.29	123.56

Appendix for *Chapter 15*
Our proposed developer charges

- Appendix N. Developer Charges Policy

Section 5. The impacts of our proposal

16. What will proposed prices mean for our customers and how we will support them

The price and bill implications for our customers

- Customers will face higher bills over the upcoming PSP5 period.
- The main reason for that is external economic conditions and our need to invest in improving customer and environmental outcomes.
- Our tariff reform proposal will mean that customers will get an immediate reduction in their access charge of $176. The relatively higher variable rate, consistent with customer feedback, will mean that customers have more control over their bills and will pay more or less based on their usage.
- An average residential customer bill[78] will increase from $1,407.23 per annum in 2025-26 to $1,928.83 in 2029-30. This is an equivalent average increase of $5 per week over the period.
- For residential customers only, 62 per cent will pay less before the proposed PSP5 price increase is considered (customers who use less than 199 kL) and 32 per cent will pay less after the first-year price increase (customers who use less than 114 kL).
- For non-residential customers, 73 per cent will pay less before the proposed PSP5 price increase is considered and 63 per cent will pay less after the first-year price increase.
- We have used benchmarks to assess affordability. Our bills are considered affordable for most of our customers by these benchmarks, however as we know, customers in low income households can have greater affordability challenges.
- Based on affordability ratios set out by IPART and the United Nations our proposed prices are within the range suggested.
- We understand that some customers will find it difficult to find the money to meet their households needs. Tasmania faces unique and persistent socio-economic challenges. Tasmania has the lowest average weekly earnings in Australia. This reality has been considered as we balance investments required, customer expectations and supporting for vulnerable customers.
- We are strengthening our TasWater Assist Program by $2.4 million over the PSP5 period, improving our support for customers who are struggling to pay their bill with a range of assistance measures.

78 An average residential customer uses 173kL per annum, or 474 litres per day.

This section of our submission outlines our view of the customer impacts of our proposed prices, our view on affordability of our prices and how we support vulnerable customers:

16.1 Who pays a TasWater bill?

16.2 Customer bill increases were below inflation in PSP4

16.3 What our proposed prices mean for our customer cohorts

16.4 Our bills are considered affordable against benchmarks

16.5 We have strengthened our support for vulnerable customers

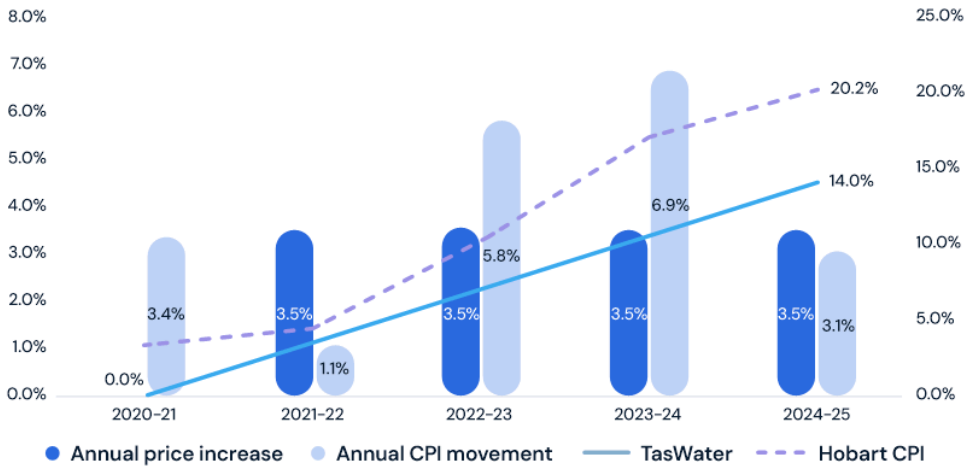
16.1 Who pays a TasWater bill?

Under our legislative framework, we apply our regulated charges to the property owner for our regulated water and sewerage services. This includes both residential homeowners, commercial property owners and strata title owners (even in cases where their strata title doesn't directly connect to our infrastructure). We also apply an access charge to the owner of a property that may not be connected to our infrastructure, but where the property is located within a serviced area.

Under our customer contract and regulatory framework our customers also have some responsibility for ensuring their property is connected and compliant with regulations. Our proposed customer contract for PSP5 is included in this submission in attachment F.1. Proposed Customer Contract.

In Tasmania, tenants can be charged for water usage if their rental property has an individual water meter. The landlord is responsible for the fixed water and sewerage charges. The water consumption charges shown on the bill can be passed on to rental tenants, if the landlord choses to do so. If a rental dwelling is not individually metered, (e.g. if a property has only one meter for multiple units), the landlord cannot pass on the usage charges to the tenants[79].

Figure 16.1. Our bill increases in comparison to inflation, %



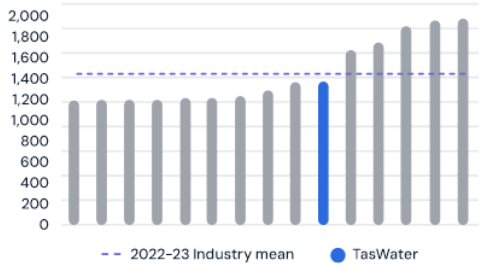
79 For more information access TasWater's website: https://www.taswater.com.au/customers/residential/tenant-billing

16.2 Customer bill increases were below inflation in PSP4

From 2021-22, we have kept our price increases at 3.50 per cent per annum, consistent with our Memorandum of Understanding with the State Government that commenced in 2018. These price increases have been below the rate of inflation over the same period, as outlined in Figure 16.1, and were also below the TER's PSP4 Price Determination, which allowed for a 3.71 per cent per annum increase for regulated water and sewerage charges.

While all major water businesses operate in a unique operational and regulatory context, we are below the median for typical household bills when compared to similar interstate businesses, as outlined in Figure 16.2[80]. This is despite our challenges with poor economies of scale across our many small water and sewerage systems.

Figure 16.2. Total annual residential bill based on 200kL per annum, $



Affordability has been a key concern among our customers and stakeholders as we have prepared our PSP5 Proposal. Measuring affordability is challenging, as it depends on each customer's unique circumstances and perspective. We estimate that our water and sewerage bill currently makes up 1.2 per cent of Tasmanian household expenditure, or $3.60 a day, as outlined in Figure 16.3[81].

Despite our bills forming a relatively low proportion of typical household costs, we understand that there are customers in Tasmania that struggle to pay the bills for their basic household needs. Further analysis on affordability is provided later in this chapter.

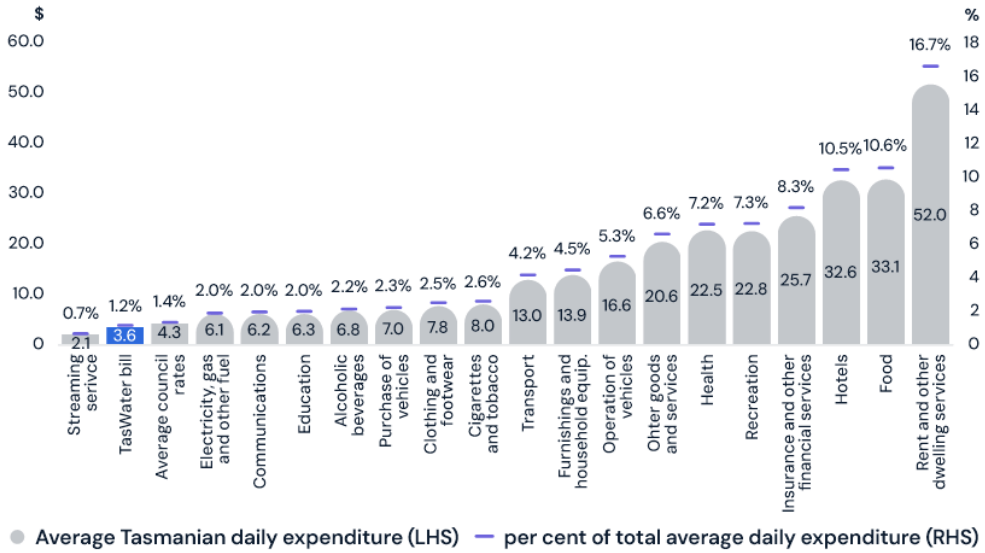
16.3 What our proposed prices mean for our customer cohorts

Under our proposed prices, customers' bills will depend on how much they use to a greater extent than in the past. We have prepared customer analysis across different customer cohorts, based on typical usage for that cohort. Of course, these are designed to be illustrative and generalisations have been made in forming our customer cohorts.

The customer bill impacts across cohorts are provided in Table 16.1. Impacts vary depending on customer cohorts, driven by water usage. For all customers, our tariff reform proposal will result in an immediate reduction in water and sewerage fixed charges of $176 per annum in 2026-27. Our prices will include the following impacts to these cohorts:

80 Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24).
81 ABS Australian National Accounts: National Income, Expenditure and Product (December 2024). This is based on current 2024-25 TasWater average residential customer bill.

Figure 16.3. Current average TasWater bill as a percentage of daily Tasmanian household expenditure, $



- An average residential customer, using 173kL per year, will see their bill increase from $1,407.23 per annum in 2025-26 to $1,928.83 in 2029-30.
- Small households such as pensioners who use 80kL per year will receive a 4.1 per cent reduction in their annual bill for the first year.
- Large households who use 320 kL per year, will see their bill increase by $264 in the first year.
- Any customers who use less than 114 kL in 2026-27 will see receive a reduction in their bill.

Renters who have the variable water charge passed on to them by the property owner will experience a larger percentage increase in the bill they pay. This is due to the existing variable charge being so low. For a renter who uses 163 kL per year, their bill will increase from $206 per annum in 2025-26 to $456 per annum in 2026-27. The 2026-27 bill for an average renter using 163 kL is equivalent to 1.93 per cent of the median Tasmanian annual rent[82].

82 ABS, Rental Market Insights (May 2025).

A graphical representation of the bill impacts for our customer cohorts under our proposed price increase and new price structures are provided in Figures 16.4 to 16.9. These present the fixed and variable portions of customer bills for an average residential cohort (173 kL per annum), a low water usage customer like a pensioner (80 kL per annum) and a large water usage customer, like a family (320 kL per annum).

Figure 16.4. Average residential, 173kL, fixed and variable charges with current PSP4 tariff structure and proposed price increase, $ nominal

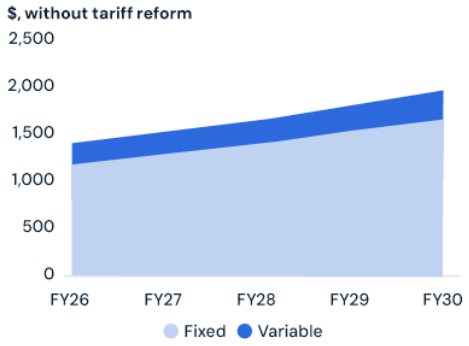


Figure 16.5. Average residential, 173kL, fixed and variable charges with proposed new tariff structure and proposed price increase, $ nominal

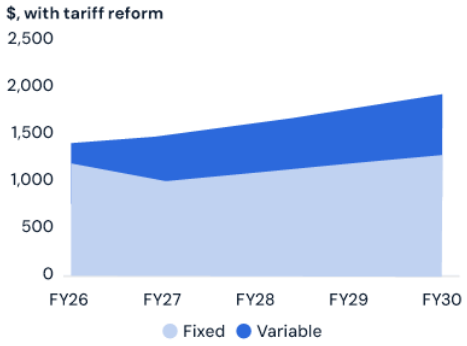


Figure 16.6 Low water usage customer, 80kL, fixed and variable charges with current PSP4 tariff structure and proposed price increase, $ nominal

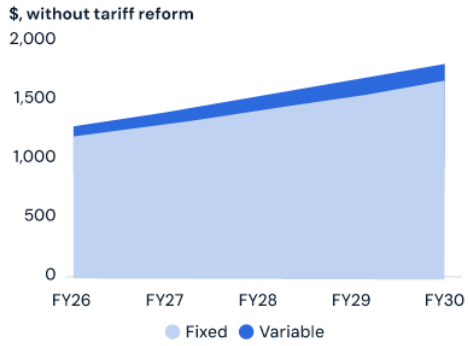


Figure 16.7. Low water usage customer, 80kL, fixed and variable charges with proposed new tariff structure and proposed price increase, $ nominal

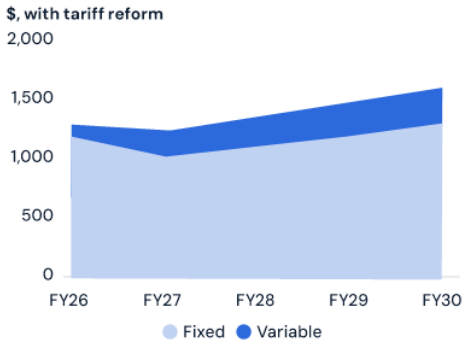


Figure 16.8. Large water usage customer, 320kL, fixed and variable charges with current PSP4 tariff structure and proposed price increase, $ nominal

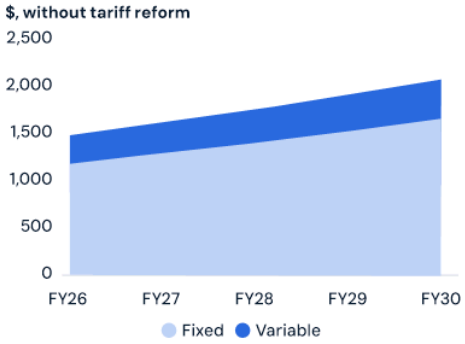


Figure 16.9. Large water usage customer, 320kL, fixed and variable charges with proposed new tariff structure and proposed price increase, $ nominal

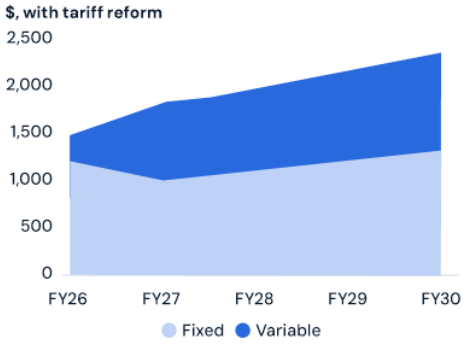


Table 16.1. Customer impact analysis (including inflation)

Financial Year	Est. no, customers	Consumption			2026	2027		
Customer cohort	No.	Min kL	Max kL	kL bill comparison	$ Annual bill	$ Annual bill	% increase from FY26	$ increase from FY2026
Pensioner, single	62,870	0	120	80	1,290	1,198	-7.1%	-92
2 person household	55,857	120	200	160	1,391	1,417	1.9%	26
Small family (2 adults, 1 child)	33,003	200	280	240	1,492	1,661	11.3%	169
Family (2 adults, 2 children)	16,312	280	359	320	1,593	1,803	13.2%	210
Large family (5 people+)	8,111	359	439	400	1,694	1,946	14.9%	252
6+ person household	10,843	439	N/A	479	1,793	2,086	16.3%	293
Business		310	N/A	310	1,580	1,785	13.0%	205
Rental property		163	N/A	163	206	445	116.5%	239
Average household		173	N/A	173	1,407	1,452	3.2%	45
Median household		154	N/A	154	1,383	1,400	1.2%	17
Pay less customers	78,753	0	142	142	1,369	1,369	0.0%	0

Table 16.1. Customer impact analysis (including inflation) *continued*

2028			2029			2030		
$ Annual bill	% increase from FY26	$ increase from FY2026	$ Annual bill	% increase from FY26	$ increase from FY2026	$ Annual bill	% increase from FY26	$ increase from FY2026
1,304	1.1%	14	1,419	10.0%	129	1,543	19.6%	253
1,541	10.8%	151	1,677	20.6%	286	1,825	31.2%	434
1,807	21.1%	315	1,966	31.8%	474	2,139	43.4%	647
1,962	23.2%	369	2,134	34.0%	542	2,322	45.8%	730
2,117	25.0%	423	2,303	36.0%	609	2,506	48.0%	812
2,270	26.6%	477	2,470	37.7%	676	2,687	49.8%	894
1,942	22.9%	362	2,113	33.7%	533	2,299	45.5%	719
484	135.5%	279	527	156.3%	321	573	178.8%	368
1,580	12.3%	173	1,719	22.2%	312	1,870	32.9%	463
1,524	10.1%	140	1,658	19.8%	274	1,804	30.4%	420
1,489	8.8%	120	1,620	18.4%	251	1,763	28.8%	394

16.4 Our bills are considered affordable against benchmarks

Consistent with emerging regulatory practice in other jurisdictions[83], we have calculated affordability ratios for bills as a proportion of a household's pre-tax income. As a benchmark for what is considered 'affordable', we have used the precedent recently published by IPART. IPART have made an assessment of affordability based on a target range of water and sewerage bills making up 2 to 3 per cent of household income.

This is based on the following reference points:

- A systematic review of studies analysing water and wastewater affordability used a threshold between 2 and 5 per cent[84].
- The United Nations have suggested that water costs should not exceed 3 per cent of household income[85].

Our analysis shows that, under our proposed prices, affordability ratios for median income households remain within the 3 per cent threshold. However, bill increases will impact low-income households to a greater extent.

83 IPART recently referenced its affordability ratios in its Draft Report for Hunter Water's prices 2025-2030 and affordability has been a growing area of regulatory focus in other jurisdictions.
84 Fagundes, Marques & Malheiros. Water affordability analysis: a critical literature review. AQUA – Water Infrastructure, Ecosystems and Society. 31 July 2023.
85 United Nations, Global Issues Water, (accessed May 2025).

As demonstrated in Table 16.2, prices for households earning a median income of $85,417 would increase from:

- 1.59 per cent to 2.11 per cent for a typical household
- 1.51 per cent to 1.87 per cent for a pensioner, single household
- 1.82 per cent to 2.72 per cent for a large household (5 or more people who own their own home or live in a house with a big garden and have relatively high water use).
- 0.24 per cent to 0.69 per cent for a typical renter (this assumes that the property owner passes on the water and sewerage variable charges to their tenants).

For low-income households (earning $41,441 per year) using 137kL per year, the affordability ratio increases from 3.29 per cent to 4.34 per cent, and up to 5.60 per cent for a low-income family with a large household (using high water usage). The affordability index for low-income renters using 163 kL per year increases from 0.50 per cent to 1.42 per cent.

By comparison, for high-income groups earning above $179,648 and using 215 kL per year, the affordability ratio increases from 0.79 per cent to 1.01 per cent, and from 0.90 per cent to 1.31 per cent for a large household with a high income.

Table 16.2. Affordability ratio analysis

Customer cohort	Income level	Water usage (kL/year)	Sewerage usage (kL/year)	Yearly income ($FY26)	Percentage of household income				
					FY26	FY27	FY28	FY29	FY30
Median household	Median	137	123	85,417	1.59%	1.64%	1.78%	1.94%	2.11%
Pensioner, single	Median	80	72	85,417	1.51%	1.45%	1.58%	1.71%	1.87%
Family (2 adult, 2 children)	Median	146	131	85,417	1.61%	1.66%	1.81%	1.97%	2.14%
Large household	Median	290	240	85,417	1.82%	2.11%	2.30%	2.50%	2.72%
Renter	Median	163	147	85,417	0.24%	0.53%	0.58%	0.63%	0.69%
Median household	Low (P20)	137	123	41,441	3.29%	3.37%	3.67%	3.99%	4.34%
Pensioner, single	Low (P20)	80	72	41,441	3.11%	2.99%	3.25%	3.53%	3.85%
Family (2 adult, 2 children)	Low (P20)	146	131	41,441	3.31%	3.43%	3.73%	4.06%	4.42%
Large household	Low (P20)	290	240	41,441	3.75%	4.35%	4.73%	5.15%	5.60%
Renter	Low (P20)	163	147	41,441	0.50%	1.10%	1.20%	1.30%	1.42%
Median household	High (P80)	137	123	172,302	0.79%	0.81%	0.88%	0.96%	1.04%
Pensioner, single	High (P80)	80	72	172,302	0.75%	0.72%	0.78%	0.85%	0.92%
Family (2 adult, 2 children)	High (P80)	146	131	172,302	0.80%	0.83%	0.90%	0.98%	1.06%
Large household	High (P80)	290	240	172,302	0.90%	1.05%	1.14%	1.24%	1.35%
Renter	High (P80)	163	147	172,302	0.12%	0.26%	0.29%	0.31%	0.34%

16.5 We have strengthened our support for vulnerable customers

We note based on the analysis above that there are segments of our customer base who are susceptible to having difficulty paying their bills. We will seek to strengthen our support for these customers in PSP5. TasWater currently provide a tiered hardship response program, known as the TasWater Assist Program.

We typically have 800-1,000 customers that are supported by our TasWater Assist Program at any point in time, although this can vary[86]. Customers will enter and leave the program as needed. We will also have a similar sized cohort that are on a payment plan of some kind, but not formally part of the TasWater Assist Program. We have recently increased our efforts to build awareness of, and participation in, the TasWater Assist Program. This includes public awareness campaigns and being more proactive with customers in assessing the need for support. An example of a recent awareness campaign is provided at Figure 16.10.

Figure 16.10 Content from our recent awareness campaign for TasWater Assist

We have also invested in customer research to better understand vulnerability within our customer base. This research overlays de-identified customer data with socio-economic data to assess those customers that may have a propensity to experience vulnerability at some point in time. Our research overlays known factors that correlate with vulnerability such as socio-economic status, family size and make-up, home ownership and credit risk rating. When these factors are considered, it estimates that up to 25 per cent of our customer base may have a propensity to experiencing vulnerability should their life circumstances change.

86 As at 30 April 2025, we had 861 customers in the TasWater Assist program.

While we do not know exactly what the increased need for customer support will be in PSP5, we believe there are clear opportunities to improve our TasWater Assist Program in the context of higher bills. The opportunities to improve the current vulnerable customer support programs include improving customer coverage, establishing clearer support structure and definition of program and improving our reporting and monitoring processes.

The current support for vulnerable customers

The current program includes the following informal tiers and elements:

Tier 0 and Tier 1 Support (Customer Service and Collections):

- Customers can access payment plans on request if they can clear their arrears within 12 months.
- Options include Centrepay, Smoothpay, and direct debit arrangements.
- Our team can apply structured plans for customers in arrears, but only where hardship is formally identified or disclosed.

Tier 2 Support (TasWater Assist Program):

Delivered by a specialist team focused on long-term hardship and vulnerability, services include:

- Warm referrals to financial counsellors and support agencies.
- One-on-one case management for financial and personal hardship.
- Basic case management support for family violence cases.

We deliver the current TasWater Assist Program from within our customer service centre budget. We estimate this to cost approximately $50,000 per annum.

Our proposal to strengthen the TasWater Assist Program

We are proposing to increase our investment in TasWater Assist Program to $2.4 million over PSP5 to meet customer demands and build the necessary operating model for TasWater Assist that will support long-term financial sustainability through early intervention, customer engagement, and structured processes.

Current arrears levels among financially vulnerable customers can be difficult to recover through standard credit and collection channels. These customers often have limited means to pay, few assets, and other health, social or economic circumstances which contribute to a customer finding themselves in a vulnerable situation. In the absence of structured support, these customers often become disengaged, allowing debt to age, grow, and be difficult to recover.

The basis for the proposed investment in TasWater Assist is shown in Figure 16.4.

Figure 16.4. Basis for TasWater Assist Proposed Investment

Prevention of Uncollectable Debt	Avoidance of Litigation and Enforcement Costs	Encouragement of Behavioral Change
• Each customer enrolled in TasWater Assist represents a high-risk debt account that, if unsupported, is likely to be written off. • Providing early, consistent assistance ensures more customers make partial or full repayments over time	• Legal action, disconnection notices, and debt collection agencies involve additional operating expenditure and often result in poor outcomes, both financially and reputationally.	• Structured incentives give customers a clear target and reward effort, promoting responsible financial behaviour and reducing default rates.

TasWater Assist will be improved to offer a defined structure of case-managed support and proactive engagement. While the key features of the TasWater Assist program enhancements are being finalised, the key elements of the program for our PSP5 Proposal are:

- **Tailored case management:** All customers enrolled in the program will receive support tailored to their situation, whether it involves low literacy, disability, Centrelink income, or health-related usage. Staff will adopt a 'one-story' principle: customers will only need to explain their situation once.
- **Account reviews and financial health checks:** Includes audits of concession eligibility, billing structure, prior leak history, and Centrepay compatibility. Customers may be eligible for leak rebates, payment plan restructuring, and other cost relief.
- **Water efficiency support:** Customers identified as having high usage will be offered referrals for usage coaching, tailored advice, and access to community-sector referrals for appliance replacement via No Interest Loan Schemes (NILS).
- **Family Violence Integration:** Customers who may be experiencing domestic violence will have access to Level 2 support regardless of payment history via the introduction of specialised case management where family violence is disclosed. This will include systemic monitoring and continuous improvement for all current and future family violence prevention measures to ensure security and protection for victims and warm referral pathways to partner agencies where appropriate.
- **Other assistance:** Subject to finalisation of TasWater Assist program, other targeted assistance measures are currently being considered.

In addition, to the investment in TasWater Assist Program, we will also investigate:

- Improving water efficiency and conservation support for customers (e.g. tap timers, shower heads).
- Expansion of TasWater Assist to non-residential customers, for example providing small business with water audits.
- Develop better processes and technology to track the effectiveness of the program.
- Explore how digital channels can be best used for TasWater Assist customers (e.g. for self-service enrolment).

We continue to develop our plans for TasWater Assist, informed by leading practices elsewhere, as we refine our approach for the local context in Tasmania in PSP5.

We will measure the effectiveness of the program

As part of the outcomes we will measure for PSP5, we have introduced a new measure, focussing on the effectiveness of our TasWater Assist Program, from the customer's perspective. We will aim for 80 per cent of customers who access TasWater Assist Program to agree the program is effective (via survey), increasing to >85 per cent of customers by the end of the PSP5 period.

17. Our financial sustainability

We must remain financially sustainable

- To continue to provide our services and fulfill our obligations to customers in the future, we must remain financially sustainable.
- Financial sustainability means that we can continue to run our operations to deliver services and continue to attract and maintain debt to make efficient investments in our network.
- When we were formed in 2013, we had very low debt levels (i.e. we were largely equity funded on inception). Our debt levels have increased over time as we make the necessary capital investments to improve customer and environmental outcomes, however our debt levels are still below the average of our interstate peers.
- Our assessment shows that we remain financially sustainable and we will maintain our investment grade credit rating for PSP5 and beyond. We have managed to live within our means to make necessary investments over the last 12 years, noting we were the beneficiaries of the low debt levels on inception.
- In order to make the investments necessary to replace and upgrade our poorly performing assets in the future, we continue to need to use debt to increase our capital investment
- Our ability to live within our means will become more difficult over time.
- It is important that the regulatory framework provides sufficient regulated revenue to TasWater to keep it financially sustainable.
- We have applied a benchmark financeability test (developed by IPART), designed to test our regulated revenue against a business that has benchmark gearing (i.e. 60 per cent gearing).
- The results of our analysis show that TasWater would not receive sufficient revenue if it had benchmark (60 per cent) gearing.
- These findings have several key suggestions:
  - That the TER consider our financeability with the process of making the PSP5 Determination.
  - Over the long-term, TasWater may need to engage with the TER to make structural improvements to the existing framework that will put TasWater on a more financially sustainable footing. Failure to do so may compromise our ability to make the necessary investments in our network that will deliver long-term benefits to customers.

This section of our submission outlines:

17.1 What is financial sustainability and why is it important

17.2 How to test for financial sustainability

17.3 We remain financially sustainable, however we may be challenged in the future

17.4 Implications and future financial sustainability risks

17.1 What is financial sustainability and why is it important

Here in Tasmania, like other jurisdictions, the framework for economic regulation aims to protect the long-term interests of customers by ensuring we have sufficient revenue to sustainably provide the services customers need while keeping prices as low as possible now and into the future[87]. Part of this is maintaining our financial sustainability.

Financial sustainability allows us to maintain and upgrade our infrastructure to deliver services to appropriate standards. As our infrastructure is long-lived, we use debt to finance these important investments. If regulated revenue allowances are insufficient to service our debt obligations when they are due or borrow enough on reasonable terms to invest in the infrastructure we need, then customers will bear the costs through inadequate services now or into the future or taxpayers will need to contribute financially to ensure our services can continue to be provided. Neither outcome is desirable.

Therefore, in the interests of customers, we must maintain a level of financial health over time that allows us to finance the investments we need to provide adequate service levels to customers. We must also be reasonably resilient to future external financial shocks that may occur.

The TER is not specifically required to consider our financial sustainability. However, we propose that consideration of our financial sustainability is vital for the ongoing provision of reliable water and sewerage services to Tasmanian customers and in customers' long-term interests, consistent with the objective of the *Water and Sewerage Industry Act 2008*.

17.2 How to test for financial sustainability

In recognition of the importance of financial sustainability (or financeability) to the long-term interests of customers, many economic regulators in other jurisdictions conduct financeability assessments to check that their regulatory decision will provide sufficient revenue for a regulated business to finance its operations efficiently over the forthcoming pricing period.

Examples of regulators that conduct financeability assessments include the Independent Competition and Regulatory Commission (ICRIC), the Independent Pricing and Regulatory Tribunal (IPART), the Essential Services Commission of Victoria (ESC), the Essential Services Commission of South Australia (ESCOSA), the Australian Energy Regulator (AER) and most economic regulators in the United Kingdom. Financeability tests are an integral part of sound regulatory practice, which:

- assess whether the revenue allowances under the regulatory decision are sufficient to support an investment grade credit rating
- can act as an early warning against a regulated business becoming financially constrained or insolvent
- should allow the regulator to identify the source of any financeability problem so that appropriate corrective action can be taken by the business or the regulator.

IPART's financeability tests are modelled on the three key financial ratios considered by rating agency Moody's when conducting rating assessments of regulated water companies.[88] These key ratios are:

- Interest coverage ratio (ICR) – which is calculated as Funds From Operations (FFO) plus

87 The objective of the Water and Sewerage Industry Act 2008 is to "protect the long-term interests of customers and to provide for the safe, environmentally responsible, efficient and sustainable provision of reliable and secure water services and sewerage services to the Tasmanian community."

88 Whilst rating agencies such as Moody's consider both qualitative and quantitative factors (i.e., financial metrics) when conducting their assessments, regulators such as IPART focus exclusively on quantitative metrics when undertaking financeability assessments. This is because the qualitative assessments undertaken by rating agencies are inherently subjective and are not replicable by interested third parties. Moreover, many of the qualitative factors considered by rating agencies (e.g. the quality of management, the financial policy of the business, etc.) are not relevant to the assessment of a benchmark efficient regulated entity. IPART has been explicit that its financeability tests are modelled on, but not intended to replicate, the assessments undertaken by rating agencies.

interest expense divided by interest expense, and measures a business's ability to service its debt from its cash flows

- Funds from operations (FFO) to net debt (FFO/net debt) – which measures a business's ability to generate cash flows to service and repay debt
- Gearing – which is calculated as debt divided by the Regulatory Asset Base (RAB), and measures a business's leverage.

Finally, these financeability tests can be performed on:

- A regulated business **actual** result, to test if there is a 'real world' financeability issue.
- A regulated business **benchmark** result, to test whether a business with a benchmark gearing (i.e. 60 per cent gearing as assumed by TER's WACC allowance) would still have sufficient revenue to support its financeability.

IPART has explained that a failure of the benchmark test would indicate a shortcoming in the regulatory decision that would warrant an adjustment to the business's regulatory allowances.

17.3 We remain financially sustainable, however we may be challenged in the future

Given that the application of financeability tests is integral to a sound regulatory framework, we have conducted benchmark and actual financeability tests modelled on IPART's test to assess outcomes under our price proposal. That is, the metrics and target ratios we have applied are consistent with those used by IPART.[89]

Table 17.1 presents the results of the two tests for TasWater under our pricing proposal, and shows that:

- We pass the actual financeability test on all three metrics in each year of PSP5.
- The benchmark test is failed on both the interest cover and FFO/net debt metrics for each year of PSP5.

89 IPART applies slightly different target ratios under its benchmark and actual tests because it assumes that a benchmark efficient business faces real interest expenses, whereas the actual business is likely to face nominal interest expenses. Given that TasWater issues nominal debt and therefore faces nominal debt obligations, we have applied in both the benchmark and actual tests the target ratios specified in IPART's actual test.

Table 17.1. Financeability metrics for the actual and benchmark financeability test – revenue under proposed price increase

Measure	Target	2026-27	2027-28	2028-29	2029-30
ICR					
Actual test	≥1.8x	3.4x	3.3x	3.1x	3.1x
Benchmark test	≥1.8x	1.2x	1.3x	1.4x	1.6x
FFO/net debt					
Actual test	≥6.0%	6.5%	6.6%	6.7%	7.3%
Benchmark test	≥6.0%	1.0%	1.6%	2.2%	2.8%
Gearing					
Actual test	≤70%	39%	41%	43%	43%
Benchmark test	≤70%	60%	60%	60%	60%

We remain financially sustainable

We remain financially sustainable for PSP5, meeting and exceeding the results expected for an investment grade regulated water business.

We have managed our debt levels prudently within our means over the first 12 years of our operations. We were the beneficiaries of low debt levels on our inception in 2013, and we have adopted gearing levels materially below the benchmark gearing assumption of 60 per cent adopted by TER to date.

However, as we outline in this PSP5 Proposal, we must continue to use debt to invest in our infrastructure to improve customer and environmental outcomes. This leads to the question as to whether our regulated revenues are sufficient to support a business with higher debt levels (gearing).

Failure against the 'benchmark' gearing financeability test

The benchmark test for financeability provides an assessment of whether we have sufficient regulated revenues if our gearing increases to the TER's assumed efficient capital structure of 60 per cent debt.

The results of the modelling demonstrate that we would fail this test. That is to say, we would not have enough revenue in this PSP5 Proposal to maintain an investment grade credit rating if we had benchmark debt (gearing) levels of 60 per cent.

The failure of the benchmark test is due to a confluence of factors:

- TasWater is mandated by statute to earn an artificially low return on equity allowance of 3 per cent p.a. on assets that existed within the RAB in 2011 (i.e. 'existing assets')[90]. Existing assets are forecast to make up 56 per cent of TasWater's opening RAB for PSP5.
- TasWater has relatively long-lived assets and a low depreciation rate. Our depreciation rate does not offset the adjustment for inflationary gain Notional Allowable Revenue. This indicates that the rate we are recovering our RAB may not be sufficient.

The benchmark test is failed both including and excluding our proposal to defer the recovery of some of the PSP5 revenue requirement over the PSP6 regulatory period, in the interests of limiting bill impacts to customers over the forthcoming period.

90 The *Water Management Act 2008* provides a return on equity allowance for TasWater's existing asset base of 3 per cent.

In other words, the source of the benchmark financeability problem identified in Table 1 above is structural in nature, rooted in the design of the regulatory framework, rather than due to our proposal to defer the recovery of PSP5 revenues to manage customer bill impacts.

17.4 Implications and future financial sustainability risks

Low regulated revenues are a challenge for the future

We are confident in our financial sustainability under this PSP5 Proposal. This is demonstrated in the results of the 'actual' financeability test above. We have prudently managed our debt levels in our first 12 years.

However, as explained in this PSP5 Proposal, we anticipate that over the coming regulatory periods we will need to invest significantly to renew and replace aging infrastructure and to comply with environmental and other regulatory requirements and to deliver appropriate service levels to customers. Unless these critical investments are made, consumers will suffer detriment over the long-term associated with deteriorating service levels and environmental outcomes.

Based on these necessary investments, our gearing will grow in the future, toward the efficient benchmark of 60 per cent. The 'headroom' that we have created by adopting a debt-light capital structure would diminish. As our gearing increases, the results from the benchmark financeability test indicate that we will not have sufficient revenue to remain financeable.

This outcome is due to a structural feature of the existing framework (i.e. a statutory requirement that TasWater earn a below-normal rate of return on more than half its asset base) and our regulatory depreciation being offset by the adjustment for inflation gain (due to the long-lived nature of our assets, combined with a relatively high inflation forecast over the period).

The financeability problem evident under the benchmark test—driven by insufficient revenue to meet the benchmark debt obligations—has existed for some time. We have managed this maintaining gearing levels well below the 60 per cent efficient gearing levels determined by the TER.

We suggest the Tasmanian Economic Regulator consider our financial sustainability

While we do not have an immediate financial sustainability concern, we do have some suggestions for the TER to consider, we propose:

- That an actual and benchmark financeability test is used as part of the PSP5 determination process, as an important perspective on the future sustainability of services to customers.
- That the TER should take caution before taking any steps that would lower either the return on capital or regulatory depreciation, below the levels proposed in this pricing proposal.
- That a more fundamental regulatory framework review be undertaken with the TER, TasWater's owners, and the State Government to identify reforms that would address this structural issues, supporting us achieving a more financially sustainable footing and allowing us to make the long-term investments needed for customers.

18. Risks and uncertainties in PSP5

Our risk profile and its implications

- We inherently manage risks in the delivery of our services and meeting our obligations. The risks we manage are varied and include water quality, water security, operational, environmental, legal and financial risks, to name a few.
- We must consider these risks in preparing our PSP5 Proposal, as they impact on our forecasts and assumptions.
- We believe our PSP5 proposal strikes the right balance between risk reduction, improved environment and customer outcomes and affordability.
- Our investments are addressing 'high risk' areas such as meeting our environmental compliance obligations, responding to climate change, lowering our dam safety risk profile and improving our customer driven service standards.
- Notwithstanding this, we still carry many risks in PSP5, based on the forecasts we include to develop our proposed prices.
- In addition to financial risks, we are also exposed to the risk of regulatory prosecution and penalties for failure to meet and/or reasonably progress to compliance.
- The regulatory framework itself also presents risks, particularly that we will recover too much, or not enough, from customers.
- We believe there are some adjustments to the regulatory framework which will minimise these risks and improve outcomes for customers.

This section of our submission outlines the risks and uncertainties in our operating environment, which are relevant to the forecasts we make for this PSP5 Proposal, including:

18.1 Why risks are important to consider

18.2 How risk is considered in the development of our capital and operating expenditure forecasts

18.3 The risks that remain after we make our expenditure forecasts

18.4 The risks associated with our key regulatory assumptions

18.5 Mitigating these risks

18.1 Why risks are important to consider

Delivering water and sewerage services has inherent risks. Managing these risks is an essential part of our business and the obligations we have to our customers, the community and the environment. In addition to day-to-day operational risks, we manage a range of longer term risks, including factors such as climate change, water scarcity, increasing regulation, supply chain issues, population growth, uncertain economic conditions, cyber-attacks and risks to our financial sustainability.

Our PSP5 Proposal must consider short and long-term risks. Our approach to managing risk has implications for our forecasts and assumptions that underpin this PSP5 Proposal. For example, a more conservative approach to risk management may involve greater investment in risk mitigations and may increase expenditure and therefore customer prices.

Once the PSP5 forecasts and assumptions are approved by the TER in the upcoming price determination, they are set. How the actuals eventuate, relative to the forecasts, have implications for the costs and risks for both ourselves and customers. Our framework of price regulation can mean that, should a significant variance to our forecasts be realised, there may be situations in which we do not recover enough revenue, or we recover too much revenue from customers.

This chapter therefore considers risk to each of the following elements to the PSP5 Proposal:

- How risk is considered in the development of our expenditure forecast
- The risks that remain after we make our make our expenditure forecasts
- The risks associated with our demand forecast
- The risks associated with our other key regulatory assumptions

18.2 How risk is considered in the development of our expenditure forecasts

Making prudent risk trade-offs consistent with our regulator expectations

We have focussed on keeping our expenditure proposals to be as prudent and efficient as possible, while reducing our risk profile to an acceptable level, consistent with the agreements we have with our technical regulators. Our investments are addressing 'high risk' areas such as meeting our environmental compliance obligations, lowering our dam safety risk profile and improving our customer driven service standards.

We also have an obligation to mitigate against the increasing risks associated with cyber-attacks to seize customer data and take control of water and sewerage operational facilities for ransom. In addition, we are required to ensure assets of critical importance are protected under the SOCI Act.

We believe our PSP5 proposal strikes the right balance between risk reduction, environment and customer outcomes and affordability. We have taken a careful approach to setting forecasts that we think are reasonable in this context.

However, in our process of aligning our expenditure forecasts with our technical regulatory commitments, we acknowledge that this is the start of a multi-PSP period investment horizon before we will ultimately reduce our risks to target levels. Given this long journey, we will still have to manage significant risks in the PSP5 period.

We are subject to regulatory prosecution and penalties if we don't deliver on our regulatory commitments

As outlined in *Chapter 4. Our regulatory commitments*, our water and sewerage operations are highly regulated. The governing legislation for our public health, environmental protection and dam safety obligations all contain provision for penalties and prosecution for non-compliance.

In addition, the Commonwealth and State Governments, through the Heads of EPA Australia, have jointly developed the National Environment Management Plan Version 3[95]. Released in March 2025, it builds on previous versions by providing updated guidance and standards for handling PFAS contamination. Key updates in NEMP 3.0 includes enhanced monitoring programs and updated standards for managing PFAS in soil, water, and biosolids. We will be required to plan for and implement these updated standards in the coming years.

In response to the growing focus on PFAS, we have taken proactive steps to mitigate the potential risks. We have undertaken extensive testing, conducting nearly 2,000 tests across 70 raw water catchments to monitor PFAS levels, ensuring safe drinking water for Tasmanians. We have also considered the risk of PFAS and its increasing regulations in our strategic planning.

We have prepared our PSP5 Proposal to allow for compliance with the draft Australian Drinking Water Guidelines. At this point, we do not forecast any significant investment in our water or sewage treatment plants will be required. However, there is a risk that the science-based regulations will increase over the PSP5 period and that significant investment will be required within the period.

Key risk:
Changing regulatory obligations for PFAS and other emerging contaminants require significant investment beyond what is included in the PSP5 Proposal.

Digital investment and cyber security

In *Chapter 8. Our efficient capital costs*, we outline our investment in digital technologies. As we seek to improve the performance of the business and respond to increasing customer expectations and regulatory requirements, we must continue to invest in our digital capability. Our PSP5 Proposal includes prudent investment in our core systems, which need upgrading or replacing. There are a number of risks that could eventuate that would require further investment in our digital technologies, beyond what is currently forecast. These risks are:

- Evolving regulatory obligations for cyber security, securing assets of critical importance and protecting customers' sensitive and private information.
- Increasing need to realise operational efficiencies with digital tools.
- Inability to address ageing infrastructure and poor service outcomes without sufficient asset or service performance information.
- Customer dissatisfaction as expectations for a digital-based interactions increase which allows customers to engage with us when they want and in a manner that is most convenient to them.

If these risks were realised, they would require further investment, beyond what is currently forecast.

Key risk:
Evolving regulatory, customer and internal expectations will require additional, unplanned investment in digital technologies.

Climate change risk

Climate change poses several significant risks to water businesses, which, if realised, may increase costs and put revenue at risk. While the pricing regulations allow for prudent and efficient capital expenditure to be recovered, the short-term operational impacts and long-term capital planning impacts present an increasingly challenging environment for water businesses to plan for, within the pricing framework. The key climate related risks include:

- Increased uncertainty in supply and demand: Variable rainfall and droughts make it harder to predict future water availability and increasingly difficult to predict changes in customer usage patterns.
- Escalating costs: Climate-resilient infrastructure often has a higher upfront cost. There may be increased costs for climate resilient design, materials and environmental compliance requirements.

95 Australian Government Department of Climate Change, Energy, the Environment and Water. PFAS National Environmental Management Plan 3.0. 2025.

- Asset stress and asset stranding: Extreme weather events (e.g. floods, bushfires, heatwaves) can damage infrastructure or reduce its operational life. In the extreme, climate change can render long-lived assets (e.g. dams, pipes, treatment plants) obsolete or underused.
- Regulatory and policy risks: Governments are imposing new climate-related regulations, such as net-zero mandates, water quality standards, or carbon pricing.
- Insurance and financing risks: It has become harder and more expensive to insure assets (e.g. in high-flood-risk areas). Climate risk assessments and financial reporting disclosures are increasing due diligence costs.

Key risk:
Climate change is increasing short term operating cost exposures and challenging long-term capital planning. This presents the short term financial pressure on our costs (and revenue), and presents challenges for long-term planning and customer affordability.

18.4 The risks associated with our key regulatory assumptions

Return on investment

The weighted average cost of capital (WACC) is used to determine the return we received on our capital investments and forms a key component of the calculation of our revenue requirement. The setting of prices, which effectively 'lock-in' settings for return on investment, can therefore result in material variances between what is recovered from customers and the actual prevailing economic outcomes that occur within a regulatory period. If the WACC is 'too high', our customers will face prices that exceed the efficient costs of supplying them with water and sewerage services. On the other hand, if the WACC is 'too low', we will not receive sufficient revenue to cover our efficient costs.

Our view is that the regulatory framework should not create a windfall gain or loss for us or customers based on forecasts of WACC. We propose that the TER consider, as part of a future regulatory framework review, changing its approach to a move from a static approach over the regulatory period to annually updating the trailing average cost of debt allowance within the regulatory period, consistent with standard Australian regulatory practice.

Key risk:
The current regulatory framework creates unnecessary risk of over or under recovery from customers.

Inflation

We must propose our prices for the regulatory period in nominal dollars, with prices including forecast of inflation made at the time of the PSP5 determination. Setting prices in nominal terms based on inflation forecasts at the start of the regulatory period means that we may over or under recover revenue relative to our efficient costs, as proposed. The risks of under or over recovery is higher in periods where inflation is difficult to forecast (as has been the case in recent times).

Our view is that the regulatory framework should not create a windfall gain or loss for us or customers based on forecasts of inflation. We propose that the TER consider, as part of a future regulatory framework review, changing its approach to a move from a nominal price framework to a real price framework, where the determined real price in each year of the regulatory period is indexed by actual inflation over the previous 12 months.

Key risk:
That we recover too much or too little from customers due to our nominal price framework assumes an inflation forecast for the PSP5 Period. As actual inflation is incurred, this creates a risk that we recover too much or too little from customers.

Demand forecast

As outlined in *Chapter 10. Our forecast demand volumes*, we have used our regional master plans to forecast growth in our connections and

customer usage. These plans use a range of inputs to forecast future demands on our systems. They then form the basis of our capital and operating expenditure forecasts in this PSP5 proposal.

While the general rate of development in Tasmania is modest when compared to other parts of Australia, the nature of Tasmanian development and our many, small and dispersed water and sewerage systems can create challenges to service growth.

We have many treatment plants across the state that will struggle to meet growth projections in the absence of investment.

We can sometimes experience development that occurs out of sequence with other development or in small towns. The load on our systems will also be driven by other factors, such as tourist visitation to our regions.

Key risk:
While we make our best estimates of growth in Tasmania, the nature of the development means that there is an inherent risk of development requiring significant unplanned investment.

18.5 Mitigating these risks

While some of these risks cannot be easily mitigated, we do note that there are specific risks to our PSP5 forecasts and assumptions that, if realised, would have a significant impact on our ability to recover our efficient costs over the period.

With regards to the risks to our key regulatory assumptions, there are a number of changes to the regulatory framework which we think would improve outcomes for customers over the long term. In 2024, we provided a submission outlining these suggested changes to the TER's consultation for its 2025-26 Price Determination – Draft Price and Service Plan Guideline (and related Issues Paper)[96]. However, these suggestions were not accepted by the TER at that time.

We propose, that as part of a future regulatory framework review, the TER consider the application of these changes from PSP6.

The regulatory changes we are proposing are standard elements of other regulatory regimes and could have material benefits to customers, by promoting:

- Regulatory certainty and minimising regulatory costs.
- Cost reflective prices and minimising windfall gains/losses that are out of our control.

The proposed changes we suggested included:

- moving to a 'real' price framework, so that the determined real prices in each year of the regulatory period are indexed by actual inflation over the previous 12 months, rather nominal regulated prices being set for the duration of the regulatory period using the TER's forecast of inflation at the start of the period
- reviewing its methodology for forecasting inflation, where applicable, taking account of the approaches of other economic regulators such as the Queensland Competition Authority, who have conducted similar reviews recently
- enhancing the (WACC) method by:
  - annually updating the allowance for the trailing average cost of debt, consistent with standard Australian regulatory practice
  - consistently pairing the Market Risk Premium with the Risk-Free Rate, in calculating the allowance for the cost of equity
  - having regard to an expanded list of utilities, including international water utilities, in deriving the equity beta estimate when calculating the WACC allowance
  - extending the regulatory period from 4 years to 5 years
  - regulating prices to category 3 and 4 trade waste customers
  - other potential changes to the regulatory framework, to ensure prices recover efficient costs and promote outcomes consistent with the long-term interests of customers.

96 TasWater's Submission to the 2025-26 Price Determine Investigation – Draft Price and Service Plan Guideline, 15 March 2024 and TasWater's Submission to the Draft Price and Service Plan Guideline

Section 6. How we will hold ourselves accountable

19. How we will hold ourselves accountable

We have been increasing the level of transparency of our performance over recent years, sharing the challenges we face in delivering sustainable water and sewerage services and our progress in improving our performance. Our increasing transparency also supports our increased emphasis on engagement with our customers and stakeholders, seeking their input on how we address our dilemmas.

We provide transparency on our performance in a number of ways, including publishing our Corporate Strategy, Annual Report and five-year Corporate Plan. We also publish an Annual Drinking Water Quality Report, and this year we published our first Environmental Performance Report and Recycled Water Performance Report for 2023-24. These reports are aimed to provide our customers and stakeholders with an understanding of both our performance and our plans to improve[97].

To support this, we also present to our owners (State Government and local councils) at two general meetings and a half-yearly update each year. These meetings focus on our performance over the previous twelve months and also provide a view of our five-year Corporate Plan on an annual basis.

As part of our regulatory commitments, we provide a public Annual Performance Report to the TER, which details our performance against our PSP4 approved minimum standards, and also contains data provided to the National Performance Report[98]. The TER uses this information as an input into its annual State of the Industry Report. In addition, we also provide a six-monthly update on our capital program and annual regulatory accounts.

We would like to take the opportunity to refine and improve our annual regulatory reporting in PSP5, to support more meaningful and efficient reporting for the TER and customers. We believe that we can streamline our performance reporting across our service standards and financial reporting to one annual report the TER.

97 These documents can be found on our website here.
98 The Australian Bureau of Meteorology National Performance Report for Urban Water Utilities (National Performance Report) provides an annual, independent benchmark of pricing and service quality of Australian urban water and wastewater service.

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TasWater

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Hobart City Council

ANNUAL FINANCIAL REPORT

for the year ended 30 June 2025

City of HOBART

Hobart City Council

Annual Financial Report

for the year ended 30 June 2025

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Content Overview

These financial statements are General Purpose Financial Statements and cover the consolidated operations for Hobart City Council.

All figures presented in these financial statements are presented in Australian Currency.

These financial statements were authorised for issue by the Council on 15 October 2025.

Audit Tasmania

Independent Auditor's Report

To the Councillors of Hobart City Council

Report on the Audit of the Financial Report

Opinion

I have audited the financial report of Hobart City Council (Council), which comprises the statement of financial position as at 30 June 2025 and statements of comprehensive income, changes in equity and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, other explanatory notes and the statement of certification signed by the Chief Executive Officer.

In my opinion, the accompanying financial report:

(a) presents fairly, in all material respects, Council's financial position as at 30 June 2025 and its financial performance and its cash flows for the year then ended

(b) is in accordance with the *Local Government Act 1993* and Australian Accounting Standards.

Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of Council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

The *Audit Act 2008* further promotes the independence of the Auditor-General. The Auditor-General is the auditor of all Tasmanian public sector entities and can only be removed by Parliament. The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

My audit responsibility does not extend to the budget figures included in the financial report, the asset renewal funding ratio disclosed in note 10.4(f), nor the Significant Business Activities disclosed in note 10.3 to the financial report and accordingly, I express no opinion on them.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Why this matter is considered to be one of the most significant matters in the audit	Audit procedures to address the matter included
Classification and recognition of capital work in progress *Refer to note 6.1, 9.13*	
Works in progress totalled $71.69 million as at 30 June 2025. Works in the 2024-25 financial year were spread across a number of significant programs to upgrade and maintain infrastructure and property assets. Capital projects can contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental. Due to historic audit observations related to asset management, this had elevated the risk related to classification and recognition of capital work in progress.	• Tested on a sample basis, additions to work in progress including the allocation of costs between capital and operating expenditure. • Tested, on a sample basis, the approval of completed assets transferred out of work in progress. • Reviewed management's appraisal of work in progress and in particular assets remaining in work in progress at year end, including management assessment of impairment indicators • Confirmed with management and verified the controls in place to ensure assets are commissioned on a timely basis.

Responsibilities of the Chief Executive Officer for the Financial Report

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Local Government Act 1993* and for such internal control as determined necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive Officer is responsible for assessing Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Council is to be dissolved by an Act of Parliament or the Councillors intend to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

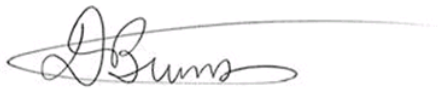
As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer.
- Conclude on the appropriateness of the Chief Executive Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Executive Officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Chief Executive Officer, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare

circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Derek Burns
Assistant Auditor-General
Delegate of the Auditor-General

16 October 2025
Hobart

Hobart City Council

Statement of Comprehensive Income

for the year ended 30 June 2025

	Note	Budget 2025 $ '000	Actual 2025 $ '000	Restated Actual 2024 $ '000
Income from continuing operations				
Recurrent income				
Rates and charges *	2.1,9.13	116,217	**117,293**	108,692
Statutory fees and fines	2.2	11,995	**9,255**	10,167
User fees	2.3	36,198	**38,645**	34,427
Grants	2.4	4,817	**3,874**	4,201
Contributions - cash	2.5	169	**1,019**	889
Interest	2.6	2,661	**4,741**	3,854
Other income	2.7	4,510	**4,316**	3,689
Investment revenue from TasWater	2.9,5.1	2,606	**2,606**	2,606
		179,173	**181,749**	168,525
Capital income				
Grants - capital	2.4	10,250	**5,165**	3,909
Contributions - non monetary assets	2.5	–	**–**	80
		10,250	**5,165**	3,989
Total income from continuing operations		189,423	**186,914**	172,514
Expenses from continuing operations				
Employee benefits	3.1	76,839	**67,670**	68,321
Materials and services	3.2	42,373	**44,796**	39,949
Impairment of receivables	3.3	401	**(18)**	663
Depreciation and amortisation	3.4	37,000	**30,133**	29,239
Finance costs	3.5	1,346	**1,590**	1,757
Net loss on disposal of property, infrastructure, plant and equipment	2.8	1,500	**2,232**	3,956
Other expenses	3.6	5,814	**5,041**	4,294
State Fire Commission Levies		15,105	**15,105**	14,234
Total expenses from continuing operations		180,378	**166,549**	162,413
Result from continuing operations		9,045	**20,365**	10,101
Net result for the year		9,045	**20,365**	10,101
Other comprehensive income:				
Items that will not be reclassified subsequently to net result				
Fair value adjustments on equity investment assets	5.1,9.1	–	**3,451**	8,826
Net asset revaluation increment/(decrement)	9.1	–	**11,084**	803,645
Actuarial gain/loss on defined benefits plans		–	**(633)**	(325)
Total items which will not be reclassified subsequently to the operating result		–	**13,902**	812,146
Total other comprehensive income		–	**13,902**	812,146
Total comprehensive result		9,045	**34,267**	822,247

The above statement should be read in conjunction with the accompanying notes.

(*) The 2024 Actuals have been restated for Rates and Charges to remove Rates Equivalency revenue. See Note 9.13 for further details.

Hobart City Council

Statement of Financial Position

as at 30 June 2025

	Note	2025 $ '000	Restated 2024 $ '000
Assets			
Current assets			
Cash and cash equivalents	4.1	**18,946**	11,740
Trade and other receivables	4.2	**9,187**	8,399
Investments	4.3	**72,000**	61,000
Inventories	4.4	**450**	456
Non-current assets classified as "held for sale"	4.5	**17**	733
Prepayments	6.4	**1,607**	1,164
Total current assets		**102,207**	83,492
Non-current assets			
Investment in TasWater	5.1	**180,300**	176,849
Property, infrastructure, plant and equipment *	6.1,9.13	**3,162,063**	3,156,228
Intangible assets	6.2	**5,106**	5,202
Right-of-use assets	6.3	**7,669**	8,523
Employee Benefits	6.4	**2,513**	3,013
Total non-current assets		**3,357,651**	3,349,815
Total assets		**3,459,858**	3,433,307
Liabilities			
Current liabilities			
Trade and other payables	7.1	**10,493**	9,134
Trust funds and deposits	7.2	**2,106**	2,362
Lease liabilities	7.4	**976**	959
Contract liabilities *	7.5,9.13	**4,917**	9,740
Provisions	7.3	**11,342**	11,016
Interest-bearing loans and borrowings	8.1	**3,331**	4,064
Total current liabilities		**33,165**	37,275
Non-current liabilities			
Provisions	7.3	**7,293**	6,725
Lease liabilities	7.4	**8,015**	8,858
Interest-bearing loans and borrowings	8.1	**32,465**	35,796
Total non-current liabilities		**47,773**	51,379
Total liabilities		**80,938**	88,654
Net assets		**3,378,920**	3,344,653
Equity			
Accumulated surplus		**1,157,107**	1,134,025
Reserves	9.1	**2,221,813**	2,210,628
Total Equity		**3,378,920**	3,344,653

The above statement should be read in conjunction with the accompanying notes.

(*) The 2024 closing balance has been restated for Works in Progress. See Note 9.13 for further details.

(*) The 2024 closing balance has been restated for Rates Equivalency revenue received in advance. See Note 9.13 for further details.

Hobart City Council

Statement of Changes in Equity

for the year ended 30 June 2025

	Note	Accumulated surplus $ '000	Asset revaluation reserves $ '000	Fair value reserve $ '000	Other reserves $ '000	Total equity * $ '000
2025						
Balance at beginning of the financial year		**1,134,025**	**2,225,052**	**(19,871)**	**5,447**	**3,344,653**
Net result for the year		**20,365**	**–**	**–**	**–**	**20,365**
Other comprehensive income						
Fair value adjustments on equity investment assets	5.1,9.1	**–**	**–**	**3,451**	**–**	**3,451**
Net asset revaluation increment/(decrement)	9.1	**–**	**11,084**	**–**	**–**	**11,084**
Actuarial gain/loss on defined benefits plans		**(633)**	**–**	**–**	**–**	**(633)**
Other comprehensive income		**(633)**	**11,084**	**3,451**	**–**	**13,902**
Total comprehensive income		**19,732**	**11,084**	**3,451**	**–**	**34,267**
Transfers to other reserves		**(23,125)**	**–**	**–**	**23,125**	**–**
Transfers from other reserves		**26,475**	**–**	**–**	**(26,475)**	**–**
Balance at end of the financial year		**1,157,107**	**2,236,136**	**(16,420)**	**2,097**	**3,378,920**

	Note	Accumulated surplus * Restated $ '000	Asset revaluation reserves $ '000	Fair value reserve $ '000	Other reserves $ '000	Total equity * Restated $ '000
2024						
Balance at beginning of the financial year		1,109,069	1,421,407	(28,697)	24,506	2,526,285
Correction of prior period errors	9.13	(3,879)	–	–	–	(3,879)
Restated opening balance		1,105,190	1,421,407	(28,697)	24,506	2,522,406
Net result for the year *	9.13	10,101	–	–	–	10,101
Other comprehensive income						
Fair value adjustments on equity investment assets	5.1,9.1	–	–	8,826	–	8,826
Net asset revaluation increment/(decrement)	9.1	–	803,645	–	–	803,645
Actuarial gain/loss on defined benefits plans		(325)	–	–	–	(325)
Other comprehensive income		(325)	803,645	8,826	–	812,146
Total comprehensive income		9,776	803,645	8,826	–	822,247
Transfers to other reserves		(282)	–	–	282	–
Transfers from other reserves		19,341	–	–	(19,341)	–
Balance at end of the financial year		1,134,025	2,225,052	(19,871)	5,447	3,344,653

The above statement should be read in conjunction with the accompanying notes.

(*) The 2024 Actuals have been restated to remove Rates Equivalency revenue. See Note 9.13 for further details.

Hobart City Council

Statement of Cash Flows

for the year ended 30 June 2025

	Note	2025 Inflows/ (Outflows) $ '000	2024 Inflows/ (Outflows) $ '000
Cash flows from operating activities			
Rates		**117,008**	108,811
Statutory fees and fines		**9,278**	10,610
User charges and other fines (inclusive of GST)		**41,985**	36,125
Grants (inclusive of GST)		**2,873**	4,888
Contributions (inclusive of GST)	2.5	**1,024**	1,123
Interest received		**4,741**	3,102
Rents (inclusive of GST)		**3,654**	2,904
Investment revenue from TasWater	2.9	**2,606**	2,606
Other receipts (inclusive of GST)		**555**	1,140
Net GST refund/payment		**34**	1,352
Payments to suppliers (inclusive of GST)		**(47,650)**	(47,884)
Payments to employees		**(67,151)**	(68,349)
Finance costs		**(1,590)**	(1,780)
Other payments		**(20,023)**	(19,651)
Net cash provided by/(used in) operating activities		**47,344**	34,997
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment		**(27,673)**	(19,603)
Proceeds from sale of property, infrastructure, plant and equipment		**2,362**	1,091
Capital grants		**1,202**	4,315
Payments for investments		**(120,000)**	(79,000)
Proceeds from sale of investments		**109,000**	62,000
Net cash provided by/(used in) investing activities		**(35,109)**	(31,197)
Cash flows from financing activities			
Repayment of interest bearing loans and borrowings		**(4,064)**	(10,132)
Repayment of lease liabilities		**(965)**	(921)
Net cash flow provided by/(used in) financing activities	9.3	**(5,029)**	(11,053)
Net Increase (decrease) in cash and cash equivalents		**7,206**	(7,253)
Cash and cash equivalents at the beginning of the financial year		**11,740**	18,993
Cash and cash equivalents at the end of the financial year	9.4	**18,946**	11,740

The above statement should be read in conjunction with the accompanying notes.

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

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Notes to the Financial Report

for the year ended 30 June 2025

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 1. Overview

1.1 Reporting entity

(a) The Hobart City Council was established on 15 October 1852 and is a body corporate with perpetual succession and a common seal.

Council's main office is located at Town Hall, Macquarie Street, Hobart.

(b) The purpose of the Council is to:

- provide for health, safety and welfare of the community;
- to represent and promote the interests of the community;
- provide for the peace, order and good government in the municipality.

1.2 Basis of accounting

These financial statements are a general purpose financial report that consists of a Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and notes accompanying these financial statements. The general purpose financial report complies with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Local Government Act 1993*. Council has determined that it does not have profit generation as a prime objective. Consequently, where appropriate, Council has elected to apply options and exemptions within accounting standards that are applicable to not-for-profit entities.

This financial report has been prepared on the accrual and going concern basis.

All amounts are presented in Australian dollars and unless stated, have been rounded to the nearest thousand dollars.

This financial report has been prepared under the historical cost convention, except where specifically stated in notes 4.5, 5.1, 6.1, 6.3, 6.4, 7.3 and 7.4.

Unless otherwise stated, all material accounting policy information is consistent with those applied in the prior year. Where appropriate, comparative figures have been amended to accord with current presentation, and disclosure has been made of any material changes to comparatives.

1.3 Use of estimates and judgements

Judgements and Assumptions
In the application of Australian Accounting Standards, Council is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Council has made no assumptions concerning the future that may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period. Judgements made by Council that have significant effects on the financial report are disclosed in the relevant notes as follows:

Employee entitlements
Assumptions are utilised in the determination of Council's employee entitlement provisions. These assumptions are discussed in note 7.3.

Defined benefit superannuation fund obligations
Actuarial assumptions are utilised in the determination of Council's defined benefit superannuation fund obligations. These assumptions are discussed in note 9.6.

Fair value of property, infrastructure, plant & equipment
Assumptions and judgements are utilised in determining the fair value of Council's property, infrastructure, plant and equipment including useful lives and depreciation rates. These assumptions are discussed in note 6.1.

continued on next page ...

Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 1. Overview (continued)

Investment in TasWater
Assumptions utilised in the determination of Council's valuation of its investment in TasWater are discussed in note 5.1.

1.4 Functions/Activities of the Council

1.4a Revenue, expenditure and assets attributable to each function

	Grants $ '000	Other $ '000	Total revenue $ '000	Total expenditure $ '000	Surplus / (deficit) $ '000	Assets $ '000
Community Facilities and Infrastructure						
2024 - 2025	142	10,461	10,603	(17,718)	(7,115)	112,868
2023 - 2024	–	9,781	9,781	(18,964)	(9,183)	112,474
Waste management						
2024 - 2025	–	15,771	15,771	(13,338)	2,433	15,885
2023 - 2024	–	12,300	12,300	(10,650)	1,650	16,371
Customer Experience and Events						
2024 - 2025	179	3,375	3,554	(11,262)	(7,708)	411
2023 - 2024	177	2,671	2,848	(11,070)	(8,222)	716
Parking						
2024 - 2025	–	28,160	28,160	(11,730)	16,430	129,995
2023 - 2024	–	28,450	28,450	(11,887)	16,563	121,540
Community Programs, Health and Safety						
2024 - 2025	658	1,126	1,784	(23,231)	(21,447)	1,609
2023 - 2024	612	1,000	1,612	(25,412)	(23,800)	1,822
Sports and Recreation						
2024 - 2025	88	8,202	8,290	(24,605)	(16,315)	255,130
2023 - 2024	78	7,464	7,542	(27,905)	(20,363)	260,745
Roads and Transport						
2024 - 2025	20	383	403	(13,849)	(13,446)	1,838,497
2023 - 2024	–	468	468	(14,900)	(14,432)	1,845,623
Other - not attributable *						
2024 - 2025	2,787	110,397	113,184	(50,816)	62,368	1,105,463
2023 - 2024	3,334	102,190	105,524	(41,625)	63,899	1,074,016
Total						
2024 - 2025	**3,874**	**177,875**	**181,749**	**(166,549)**	**15,200**	**3,459,858**
2023 - 2024	**4,201**	**164,324**	**168,525**	**(162,413)**	**6,112**	**3,433,307**

Note - Capital expenses and capital income are not included

(*) Rates and charges for Stormwater, Solid Waste Management and Fire have been attributed to functions, but general rates have not.

continued on next page ...

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 1. Overview (continued)

	2025 $ '000	2024 $ '000

1.4b Reconciliation of assets

Current assets	**102,207**	83,492
Non-current assets	**3,357,651**	3,349,815
	3,459,858	3,433,307

1.4c Analysis of Council results by program

The activities relating to Council's functions are classified as follows:

Community Facilities and Infrastructure:
public halls, building maintenance, public conveniences, city cleansing, and stormwater.

Waste management
solid waste management and recycling.

Customer Experience and Events
city welcome, tourism promotion, Salamanca Market, city marketing, and events.

Parking
car parks and on-street parking.

Community Programs, Health and Safety
emergency management, animal management, public health, and community programs.

Sports and Recreation
parks, reserves, waterways, bushland, arboricultural services, the nursery, Aquatic Centre, open space planning, and fire and biodiversity.

Roads and Transport
roads, footpaths, bridges, traffic strategy, and city infrastructure management.

Other
people and culture, risk and audit, legal, finance, procurement, rates, information technology, fleet and fabrication, depot support, asset management, civic support, property management, and other not attributed elsewhere.

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 2. Revenue

	Note	2025 $ '000	2024 Restated $ '000

2.1 Rates and charges *

The Council has moved from using Assessed Annual Value (AAV) as the basis of valuation of all properties within the municipality to using Capital Value (CV) from 1 July 2024. The CV of a property is its total value, including the land value and visible improvements, excluding plant and machinery.

The valuation base used to calculate general rates for 2024-25 was $31.9 billion (2023-24 $1.5 billion using AAV).

General rates		**83,902**	78,442
State Fire Service Rates		**15,456**	14,231
Waste Management Service Charge		**7,221**	6,717
Stormwater Removal Service Rates		**6,947**	6,594
FOGO Collection Service Charge		**1,316**	1,179
Interest and Penalties		**690**	543
State Government Landfill Levy Service Charge		**619**	258
Supplementary Rates		**584**	194
240L Bin Service Charge		**300**	276
Tip Rehabilitation Levy		**258**	258
Total rates and charges	9.13	**117,293**	108,692

The date of the latest general revaluation of land for rating purposes within the municipality was 1 July 2021, and the valuation was first applied in the rating year commencing 1 July 2022.

Accounting policy
Council recognises revenue from rates and annual charges for the amount it is expected to be entitled to at the beginning of the rating period to which they relate, or when the charge has been applied. Rates and charges in advance are recognised as a financial liability until the beginning of the rating period to which they relate.

(*) The 2024 Actuals have been restated for Rates and Charges to remove Rates Equivalency revenue. See Note 9.13 for further details.

2.2 Statutory fees and fines

Infringements and costs	**5,426**	6,685
Planning, Building and Plumbing Fees	**2,759**	2,489
Licences, Permits and Registrations	**1,070**	993
Total statutory fees and fines	**9,255**	10,167

Accounting policy
Statutory fees and fines are recognised as income when the service has been provided, the payment is received, or when the penalty has been applied, whichever first occurs.

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Notes to the Financial Report
for the year ended 30 June 2025

Note 2. Revenue (continued)

2.3 User fees

	2025 $ '000	2024 $ '000
Car Parking Fees and Charges	**22,810**	21,835
Doone Kennedy Hobart Aquatic Centre Fees	**5,585**	4,890
Waste Management Centre Fees	**5,004**	2,974
Sale of Goods	**1,941**	1,817
Commissions	**968**	954
Venue & Facility Hire	**702**	630
Other	**1,635**	1,327
Total user fees	**38,645**	34,427
User fees by timing of revenue recognition		
User fees recognised over time	**21,669**	19,809
User fees recognised at a point in time	**16,976**	14,618
Total user fees	**38,645**	34,427

Accounting policy
Council recognises revenue from user fees and charges at a point in time, or over time, as the performance obligation is completed and the customer receives the benefit of the goods / services being provided.

Where an upfront fee is charged, such as membership fees for the Doone Kennedy Hobart Aquatic Centre, the fee is recognised on a straight-line basis over the expected life of the membership.

Licences granted by Council are all either short-term or low value and all revenue is recognised at the time that the licence is granted rather than the term of the licence.

2.4 Grants

	2025 $ '000	2024 $ '000
(a) Operating Grants		
Sparking Conversations, Igniting Action	**415**	440
Still Gardening Program	**191**	170
Fuel Tax Credit Scheme	**127**	147
Yurikamome Children's Choir	**35**	–
Financial Assistance Grants	**2,241**	2,929
Disaster Ready Funding	**193**	–
Southern Tasmania Regional Land Use	**172**	197
Tasmanian Travel and Information Centre	**131**	150
Local Government Loans Program - Interest Rebates	**4**	61
Other Grants	**365**	107
Total operating grants	**3,874**	4,201

The Australian Government provides Financial Assistance Grants to Council for general purpose use and the provision of local roads. In accordance with AASB 1058 *Income for Not-for-Profit Entities*, Council recognises these grants as revenue when it obtains control over the assets comprising the receipt.

Since 2009-10 the Australian Government has been making early payments of Financial Assistance Grants in some years. 85 per cent of the estimated 2024-25 grants were received as an early payment in June 2024. Council did not reflect the early payments in its 2024-25 budget due to the budget being completed prior to the payments being made. In this current period 50 per cent of the 2025-26 grants were received by Council in June 2025.

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Notes to the Financial Report
for the year ended 30 June 2025

Note 2. Revenue (continued)

	2025 $ '000	2024 $ '000

Financial Assistance Grants are general grants and do not have sufficiently specific performance obligations. As a result, they are recognised as income when received. Future payments of Financial Assistance Grants remain at the Australian Government's discretion.

(b) Capital grants

2021 Election Commitments	**1,777**	248
Warm Water Pool Reallocation	**1,069**	–
Roads to Recovery Program	**890**	685
Local Roads and Community Infrastructure Programs	**481**	756
Tas Active Infrastructure	**423**	–
Vulnerable Road User Grants	**201**	1,493
Better Active Transport	**120**	–
Safer Communities	**–**	330
Black Spot Funding	**–**	238
Improving the Playing Field Grants	**–**	184
Other	**204**	(25)
Total capital grants	**5,165**	3,909

Timing of revenue recognition		
Grants recognised over time	**5,237**	3,355
Grants recognised at a point in time	**3,802**	4,755
Total Grants	**9,039**	8,110

(c) Unspent grants and contributions
Grants and contributions which were obtained on the condition that they be spent for specified purposes or in a future period, but which are not yet spent in accordance with those conditions, are as follows:

Operating		
Balance of unspent funds at 1 July	**1,376**	1,322
Add: Funds received and not recognised as revenue in the current year	**257**	1,259
Less: Funds received in prior year but revenue recognised and funds spent in current year	**(1,112)**	(1,205)
Balance of unspent funds at 30 June	**521**	1,376
Capital		
Balance of unspent funds at 1 July	**6,894**	6,185
Add: Funds received and not recognised as revenue in the current year	**180**	3,058
Less: Funds received in prior year but revenue recognised and funds spent in current year	**(4,352)**	(2,349)
Balance of unspent funds at 30 June	**2,722**	6,894
Total unspent funds held as a contract liability	**3,243**	8,270

Accounting policy
Council recognises untied grant revenue and those without performance obligations when received. In cases where there is an enforceable agreement which contains sufficiently specific performance obligations, revenue is recognised as or when control of each performance obligations is satisfied (i.e. when it transfers control of a product or provides a service). A contract liability is recognised for unspent funds received in advance and then recognised as income as obligations are fulfilled.

Each performance obligation is considered to ensure that the revenue recognition reflects the transfer of control. Within grant agreements there may be some performance obligations where control transfers at a point in time and others which have a continuous transfer of control over the life of the contract. Where control is transferred over time, generally the input methods being either costs or time incurred are deemed to be the most appropriate methods to reflect the transfer of benefit.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 2. Revenue (continued)

If the transaction is a transfer of a financial asset to enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council (i.e. an in-substance acquisition of a non-financial asset), a contract liability is recognised for the excess of the fair value of the transfer over any related amounts recognised, and then revenue as the unspent funds are expended at the point in time at which required performance obligations are completed.

For construction projects, this is generally as the construction progresses in accordance with costs incurred, since this is deemed to be the most appropriate measure of the completeness of the construction project as there is no profit margin. For the acquisitions of assets, revenue is recognised when the asset is acquired and controlled by the Council.

	2025 **$ '000**	2024 $ '000
2.5 Contributions		
(a) Cash		
Greater Hobart Strategic Partnership	**319**	301
Waterways	**311**	–
Southern Tasmania Regional Land Use Strategy	**200**	70
Public Open Space	**68**	62
Christmas Pageant	**30**	30
Roads	**–**	286
The Good Water Project	**–**	120
Other	**91**	20
Total	**1,019**	889
(b) Non-monetary assets		
Land	**–**	80
Total	**–**	80
Total contributions	**1,019**	969

Accounting policy
Council recognises contributions without performance obligations when received. In cases where the contributions is for a specific purpose to acquire or construct a recognisable non-financial asset, a liability is recognised for funds received in advance and income recognised as obligations are fulfilled.

2.6 Interest

Interest on cash and cash equivalents	**4,570**	3,699
Interest on financial assets	**152**	147
Other	**19**	8
Total interest	**4,741**	3,854

Accounting policy
Interest income is recognised progressively as it is earned.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 2. Revenue (continued)

	2025 $ '000	2024 $ '000

2.7 Other income

Rental income	**3,314**	2,904
Insurance Proceeds and Other Reimbursements	**572**	387
Volunteer services	**153**	132
Other	**277**	266
Total other income	**4,316**	3,689

Other income

Other income recognised over time	**3,314**	2,904
Other income recognised at a point in time	**1,002**	785
Total other income	**4,316**	3,689

Accounting policy

Lease Income
Operating lease revenue from the use of Council's assets is recorded on an accruals basis in accordance with leasing arrangements.

Rental income
Rents are recognised as revenue when the payment is due. Rental payments received in advance are recognised as a payable until they are due.

Volunteer services
Council recognises the inflow of resources in the form of volunteer services where the fair value of those services can be reliably measured and Council would have purchased those services if they had not been donated.

2.8 Net gain/(loss) on disposal of property, infrastructure, plant and equipment

Property, infrastructure, plant and equipment

Proceeds of sale	**2,362**	1,091
Written down value of assets disposed	**(4,594)**	(5,047)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	**(2,232)**	(3,956)

Accounting policy
The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

2.9 Investment revenue from TasWater

Dividend revenue received	**2,606**	2,606
Total Investment revenue from TasWater	**2,606**	2,606

Accounting policy
Dividend revenue is recognised when Council's right to receive payment is established and it can be reliably measured.

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 3. Expenses

	2025 $ '000	2024 $ '000
3.1 Employee benefits		
Wages and salaries	**56,392**	56,307
Superannuation	**6,636**	6,838
Annual leave and long service leave	**5,563**	5,421
Workers compensation	**874**	1,724
Redundancies	**294**	698
Fringe benefits tax	**213**	238
	69,972	71,226
Less amounts capitalised	**(2,302)**	(2,905)
Total employee benefits	**67,670**	68,321
Number of employees (full-time equivalent) at year end	**528**	566

Accounting policy

Employee benefits expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Employee benefits include, where applicable, entitlements to wages and salaries, annual leave, sick leave, long service leave, superannuation and any other post-employment benefits.

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Notes to the Financial Report
for the year ended 30 June 2025

Note 3. Expenses (continued)

3.2 Materials and services

Contractors	**19,892**	17,889
Materials & Equipment Purchases	**4,576**	4,033
Licences	**3,407**	2,991
Landfill Levy	**2,501**	781
Energy Costs	**2,466**	2,542
External Labour Charges	**2,418**	1,580
Insurance (excl Workers Compensation)	**1,758**	1,566
Vehicle & Machinery Costs	**1,450**	1,587
Water and sewerage charges	**1,311**	1,179
Legal Services	**1,061**	1,652
Bank and Credit Card Fees	**827**	930
Communication Costs	**518**	513
Training and Study Assistance	**399**	930
Recruitment Costs	**277**	268
Memberships	**224**	247
Protective Clothing and Equipment	**186**	167
Promotions	**182**	143
Volunteer Services Expense	**153**	132
Debt Collection Fees	**135**	195
Statutory Notices	**116**	146
Low-Value Leases	**66**	12
Other	**873**	466
Total materials and services	**44,796**	39,949

Accounting policy
Materials and services expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Routine maintenance, repair costs, and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold the cost is capitalised and depreciated. The carrying value of the replaced asset is expensed.

	2025	2024
	$ '000	$ '000

3.3 Impairment of receivables

Infringement debtors	**(18)**	663
Total impairment of receivables	**(18)**	663

Accounting policy
Impairments are recognised when Council has determined there to be an increase in the credit risk of a financial asset since initial recognition. Council's policy and events giving rise to impairment losses are disclosed in note 4.2.

continued on next page ...

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 3. Expenses (continued)

	2025 $ '000	2024 $ '000
3.4 Depreciation and amortisation		
Land improvements	**5,935**	5,663
Buildings	**2,849**	2,731
Plant and equipment	**3,918**	4,229
Pathways and Cycleways	**4,681**	4,499
Stormwater	**3,727**	3,577
Roads and Bridges	**7,010**	6,791
Intangible assets	**1,020**	763
Right-of-use of assets	**993**	986
Total	**30,133**	29,239

Accounting policy

Depreciation and amortisation is recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Land improvements, buildings, infrastructure, intangibles and plant and equipment having limited useful lives are systematically depreciated over their useful lives to Council in a manner which reflects consumption of the service potential embodied in those assets. Right-of-use assets are depreciated over their lease term.

Residual values are assumed to be zero except for some plant and equipment assets. Estimates of remaining useful lives and residual values are made on a regular basis with major asset classes reassessed annually. Depreciation and amortisation rates and methods are reviewed annually.

Where assets have separate identifiable components that are subject to regular replacement, these components are assigned distinct useful lives and remaining values and a separate depreciation rate is determined for each component.

Land, land under roads and valuables are not depreciated on the basis that they are assessed as not having a limited useful life.

Straight line depreciation is charged based on the residual useful life as determined each year.

Ranges of useful lives for major asset classes are:

Asset Class	**Range**
Buildings	
Halls	125 - 200
Car Parks	150
Grandstands and Change Rooms	40 - 150
Public Conveniences	100
Depot Buildings	40 - 150
Administrative Offices	150 - 500
Other	40 - 150
Land Improvements	
Landscaping	5-100
Playground Equipment	5 - 20
Sports Infrastructure	10 - 100
Fountains	10 - 100
Furniture and Signs	10 - 100
Playing Surfaces	5 - 10
Other	5 - 150
Roads and Bridges	
Sealed Roads	12 - 100
Bridges	75 - 100
Kerbs and Gutters	25 - 75
Stormwater	
Stormwater Mains	50 - 132

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Notes to the Financial Report
for the year ended 30 June 2025

Note 3. Expenses (continued)

Stormwater Treatment	20 - 100
Hydraulic Infrastructure	10 - 100
Drainage structures	35 - 120
Rivulets	15 - 200
Pathways and Cycleways	
Footpaths and Cycleways	15 - 100
Walking Tracks and Fire Trails	10 - 85
Plant and Equipment	
Heavy Plant and Equipment	7 -10
Fleet Vehicles	3 - 10
Minor Plant	3 - 10
Furniture and Office Equipment	2 - 40
ICT Equipment	2 - 8

	2025 $ '000	2024 $ '000
3.5 Finance costs		
Interest on Loans	**1,299**	1,471
Interest - lease liabilities	**264**	284
Landfill Restoration Provision	**174**	141
Dismantling Provision	**2**	4
Defined-benefit superannuation scheme	**(149)**	(143)
Total	**1,590**	1,757
Total finance costs	**1,590**	1,757

Accounting policy
Finance costs are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Finance costs are recognised as an expense in the period in which they are incurred, except where they are capitalised as part of a qualifying asset constructed by Council. Where specific borrowings are obtained for the purpose of specific asset acquisition, the weighted average interest rate applicable to borrowings at balance date, excluding borrowings associated with superannuation, is used to determine the borrowing costs to be capitalised.

Borrowing costs include interest on bank overdrafts, borrowings, leases and unwinding of discounts.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 3. Expenses (continued)

	2025 $ '000	2024 $ '000
3.6 Other expenses		
External Auditors' Remuneration (Tasmanian Audit Office)		
- Auditing of the Financial Statements	**100**	80
- Other Audit Services	**9**	7
Internal Auditors' Remuneration (KPMG)	**104**	95
Internal Auditors' Remuneration (WLF Accounting & Advisory)	**–**	2
Grants and Specific Purpose Benefits	**2,742**	2,082
Land Tax	**1,328**	1,332
Councillors' allowances	**659**	611
Other	**99**	85
Total other expenses	**5,041**	4,294

Accounting policy
Other expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in an asset, or an increase of a liability has arisen that can be measured reliably.

Notes to the Financial Report
for the year ended 30 June 2025

Note 4. Current assets

	Note	2025 $ '000	2024 $ '000
4.1 Cash and cash equivalents			
Current			
Cash at bank		**17,121**	10,079
At Call		**1,767**	1,598
Cash on hand		**58**	63
Total current cash and cash equivalents		**18,946**	11,740
Council's cash and cash equivalents are subject to a number of external restrictions and internal commitments that limit amounts available for discretionary or future use. These include:			
Restricted funds			
Grants and Contributions subject to Conditions	2.4	**3,243**	8,270
Trust Funds, Deposits and Retentions	7.2	**2,106**	2,362
Heritage Funding		**1,946**	1,809
Rates Equivalency subject to Conditions *	9.13	**1,162**	871
		8,457	13,312
Internal committed funds			
Employee Entitlements	7.3	**14,169**	13,435
McRobies Gully Landfill Rehabilitation	7.3	**4,466**	4,306
Queens Domain Facility Upgrades		**2,880**	2,507
Bushland Acquisition		**62**	9
Contributions in Lieu of Public Open Space		**90**	20
Street Tree Compensation Fund		**21**	57
Committed funds		**30,145**	33,646
Total uncommitted cash and cash equivalents		**(11,199)**	(21,906)
Total Investments	4.3	**72,000**	61,000
Total uncommitted funds		**60,801**	39,094

Accounting policy
For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits at call, and other highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts.

Restricted and internally committed funds include:
i) Refundable building, contract and other refundable amounts held in trust by Council for completion of specific purposes.
ii) Grant funding received in advance until specific performance obligations required under funding arrangements are completed.
iii) Landfill rehabilitation obligations.
iv) Monies set aside to meet employee provision obligations.
v) Monies set aside for Queens Domain facilities, bushland acquisition, street tree planting and public open space.
vi) Monies set aside for heritage funding (see below).

On 16 July 1999, the *National Trust Preservation Fund (Winding-up) Act 1999* (the Act) commenced. The purpose of the Act was to provide for the winding-up of the National Trust Preservation Fund (Preservation Fund) and the distribution of the monies held in that fund. The Act required the Hobart City Council to establish a Heritage Account, into which the Minister transferred one-half of the monies contained in the Preservation Fund.

On 15 December 1999, Council established the required Heritage Account with Perpetual Trustees Tasmania Limited (now TPT Wealth Limited), and the Minister transferred an amount of $1,216,205 to that account.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 4. Current assets (continued)

The Act requires that funds transferred into the Heritage Account be applied for the provision of financial or other assistance in relation to an entry in either the National Trust register kept by the National Trust of Australia (Tasmania), or the Tasmanian Heritage Register. In order to satisfy its responsibilities under the Act, Council has established a Heritage Account Special Committee as a Special Committee of Council pursuant to section 24 of the *Local Government Act 1993*.

(*) The 2024 balance has been restated for Rates Equivalency revenue received in advance. See Note 9.13 for further details.

	2025 $ '000	2024 $ '000
4.2 Trades and other receivables		
Current		
Infringement debtors	**5,218**	5,230
Rates debtors	**2,370**	1,858
Net GST receivable	**858**	228
Accrued Interest	**838**	1,395
Other debtors	**1,986**	1,788
Provisions for doubtful debts		
Provision for expected credit loss - other debtors	**(15)**	(18)
Provision for expected credit loss - infringements	**(2,068)**	(2,082)
Total current trade and other receivables	**9,187**	8,399
Total trade and other receivables	**9,187**	8,399
Reconciliation of movement in expected credit loss		
Carrying amount at 1 July	**(2,100)**	(3,307)
Amounts written off during the year	**17**	2,450
Increase / (decrease) in provision recognised in profit or loss	**–**	(1,243)
Carrying amount at 30 June	**(2,083)**	(2,100)

For ageing analysis of the financial assets, refer to note 9.10(b)

Accounting policy

Trade receivables that do not contain a significant financing component are measured at amortised cost, which represents their transaction value. Impairment is recognised on an expected credit loss (ECL) basis. When determining whether the credit risk has increased significantly since initial recognition, and when estimating the ECL, Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience, an informed credit assessment and forward-looking information. Council has established a provision matrix to facilitate the impairment assessment.

For rate debtors, Council takes the view that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. For non-rate debtors, Council uses the provision matrix to assist in calculating receivables that will likely be in default. Council writes off receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 4. Current assets (continued)

	2025 $ '000	2024 $ '000
4.3 Investments		
Current		
Term deposits - more than 3 months	**72,000**	61,000
Total current investments	**72,000**	61,000

Accounting policy
Investments held by Council consist of term deposits, with a maximum maturity of 12 months. Council holds investments for principle and interest and measures these at amortised cost.

4.4 Inventories

Current		
McRobies Gully – construction materials	**113**	72
Tasmanian Travel & Information Centre	**73**	84
Salamanca Market	**34**	67
The Doone Kennedy Hobart Aquatic Centre	**34**	36
Other	**196**	197
Total current inventories	**450**	456

Accounting policy
Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential. All other inventories, including land held for sale, are measured at the lower of cost and net realisable value. Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.

4.5 Assets held for sale

Current		
Land	**17**	733
Total assets held for sale	**17**	733

The Council has made the decision to sell one parcel of vacant land. It is expected to be sold within one year. The land is valued at the lower of carrying value and fair value less cost to sell.

Accounting policy
A non-current asset held for sale (including disposal groups) is measured at the lower of its carrying amount and fair value less costs to sell, and is not subject to depreciation. Non-current assets, disposal groups and related liabilities are treated as current and classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale (or disposal group sale) is expected to be completed within 12 months from the date of classification.

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 5. Other investments

	2025 $ '000	2024 $ '000
5.1 Investment in TasWater		
Opening balance	**176,849**	168,023
Fair Value adjustments on equity investment assets	**3,451**	8,826
Total Investment in TasWater	**180,300**	176,849

Council has derived returns from TasWater as disclosed at note 2.9.

Accounting policy

Council holds an investment in TasWater which is held for long-term strategic purposes, and therefore Council has elected under AASB 9 *Financial Instruments* to irrevocably classify this equity investment as designated at fair value through other comprehensive income. Subsequent changes in fair value are recognised in other comprehensive income (for fair value reserve, refer note 9.1) and not reclassified through the profit or loss when derecognised. Dividends associated with the TasWater investment are recognised in profit and loss when the right of payment has been established and it can be reliably measured.

Fair value was determined by using Council's ownership interest against TasWater's net asset value at balance date. Council holds 9.35 per cent ownership interest in TasWater which is based on Schedule 2 of the TasWater's Constitution.

Notes to the Financial Report
for the year ended 30 June 2025

Note 6. Non-current assets

	Note	2025 $ '000	2024 Restated $ '000
6.1 Property, infrastructure, plant and equipment *			
(a) Property			
Land			
at fair value as at 30 June		**322,255**	323,547
		322,255	323,547
Land under roads			
at fair value as at 30 June		**1,872,314**	1,875,171
		1,872,314	1,875,171
Land improvements			
at fair value as at 30 June		**283,273**	279,340
Less accumulated depreciation		**(153,310)**	(146,303)
		129,963	133,037
Total land		**2,324,532**	2,331,755
Buildings			
at fair value as at 30 June		**350,548**	347,463
Less accumulated depreciation		**(149,320)**	(145,511)
		201,228	201,952
Total buildings		**201,228**	201,952
Total property		**2,525,760**	2,533,707
(b) Plant and equipment			
Plant, machinery and equipment			
at cost		**49,856**	49,990
Less accumulated depreciation		**(31,667)**	(33,287)
		18,189	16,703
Total plant and equipment		**18,189**	16,703

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Notes to the Financial Report
for the year ended 30 June 2025

Note 6. Non-current assets (continued)

	Note	2025 $ '000	2024 Restated $ '000
(c) Infrastructure			
Roads and Bridges			
at fair value as at 30 June		**544,896**	533,126
Less accumulated depreciation		**(305,110)**	(292,648)
		239,786	240,478
Pathways and Cycleways			
at fair value as at 30 June		**256,809**	251,205
Less accumulated depreciation		**(167,985)**	(159,966)
		88,824	91,239
Stormwater			
at fair value as at 30 June		**406,400**	399,763
Less accumulated depreciation		**(192,348)**	(185,913)
		214,052	213,850
Total infrastructure		**542,662**	545,567
Other Property			
Valuables			
at fair value as at 30 June		**3,765**	3,765
		3,765	3,765
Total Other		**3,765**	3,765
(d) Works in progress *	9.13		
Road and Bridge Works		**34,723**	25,120
Parks, Recreation and Reserves Works		**10,665**	5,791
Technology Upgrades		**7,537**	6,603
Waterways Works		**5,035**	4,476
Property and Building Works		**4,492**	3,983
Bushland Works		**3,925**	3,429
Waste and Recycling Works		**1,903**	2,510
Plant and Equipment		**1,568**	1,368
Doone Kennedy Hobart Aquatic Centre Upgrades		**845**	2,713
Other		**994**	493
Total works in progress		**71,687**	56,486
Total property, infrastructure, plant and equipment		**3,162,063**	3,156,228

(*) The 2024 closing balance has been restated for Works in Progress. See Note 9.13 for further details.

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Notes to the Financial Report
for the year ended 30 June 2025

Note 6. Non-current assets (continued)

2025	Note	as at 30/06/24 Balance at beginning of financial year Restated $ '000	Asset class movements: Acquisition of assets $ '000	Revaluation increments $ '000	Revaluation decrements $ '000	Depreciation and amortisation $ '000	Written down value of disposals $ '000	Transfers $ '000	as at 30/06/25 Balance at end of financial year $ '000
Reconciliation of property, infrastructure, plant and equipment									
Property									
Land		323,547	–	–	(1,291)	–	–	–	322,255
Land under roads		1,875,171	–	–	–	–	(2,857)	–	1,872,314
Land improvements		133,037	45	1,131	–	(5,935)	(215)	1,898	129,963
Total land		2,331,755	45	1,131	(1,291)	(5,935)	(3,072)	1,898	2,324,532
Buildings		201,952	81	1,192	–	(2,849)	–	852	201,228
Total buildings		201,952	81	1,192	–	(2,849)	–	852	201,228
Total property		2,533,707	126	2,323	(1,291)	(8,784)	(3,072)	2,750	2,525,760
Plant and equipment									
Plant and Equipment		16,703	5,420	–	–	(3,918)	(92)	76	18,189
Total plant and equipment		16,703	5,420	–	–	(3,918)	(92)	76	18,189
Infrastructure									
Pathways and Cycleways		91,239	–	1,882	–	(4,681)	(79)	463	88,824
Stormwater		213,850	–	3,089	–	(3,727)	(59)	899	214,052
Roads and Bridges		240,478	–	5,081	–	(7,010)	(221)	1,459	239,786
Total infrastructure		545,567	–	10,052	–	(15,418)	(359)	2,821	542,662
Other									
Other Property		3,765	–	–	–	–	–	–	3,765
Total Other		3,765	–	–	–	–	–	–	3,765
Works in progress *	9.13								
Capital Work in Progress *		56,486	22,128	–	–	–	–	(6,927)	71,687
Total works in progress		56,486	22,128	–	–	–	–	(6,927)	71,687
Total property, infrastructure, plant and equipment		3,156,228	27,674	12,375	(1,291)	(28,120)	(3,523)	(1,280)	3,162,063

Transfers
$1.280 million of Capital Work in Progress was transferred to Intangibles in 2024-25 (see note 6.2).

(*) The 2024 closing balance has been restated for Works in progress. See Note 9.13 for further details.

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Notes to the Financial Report
for the year ended 30 June 2025

Note 6. Non-current assets (continued)

2024	Note	as at 30/06/23 Balance at beginning of financial year	Additions	Revaluation increments	Depreciation and amortisation	Written down value of disposals	Other movements	Transfer to Non-current Assets	as at 30/06/24 Balance at end of financial year Restated
		$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Reconciliation of property, infrastructure, plant and equipment									
Property									
Land		317,631	757	5,903	–	–	(744)	–	323,547
Land under roads		1,112,759	–	762,412	–	–	–	–	1,875,171
Land improvements		129,717	185	5,338	(5,663)	(306)	171	3,595	133,037
Total land		**1,560,107**	**942**	**773,653**	**(5,663)**	**(306)**	**(573)**	**3,595**	**2,331,755**
Buildings		195,968	3	8,103	(2,731)	–	–	609	201,952
Total buildings		**195,968**	**3**	**8,103**	**(2,731)**	**–**	**–**	**609**	**201,952**
Total property		**1,756,075**	**945**	**781,756**	**(8,394)**	**(306)**	**(573)**	**4,204**	**2,533,707**
Plant and equipment									
Plant and Equipment		18,338	2,743	–	(4,229)	(283)	105	29	16,703
Total plant and equipment		**18,338**	**2,743**	**–**	**(4,229)**	**(283)**	**105**	**29**	**16,703**
Infrastructure									
Pathways and cycleways		88,750	–	3,661	(4,499)	(471)	(3)	3,801	91,239
Stormwater		206,575	–	8,580	(3,577)	(202)	14	2,460	213,850
Roads and Bridges		233,094	–	9,649	(6,791)	(1,201)	(60)	5,787	240,478
Total infrastructure		**528,419**	**–**	**21,890**	**(14,867)**	**(1,874)**	**(49)**	**12,048**	**545,567**
Other Property		3,647	99	–	–	–	8	11	3,765
Total Other		**3,647**	**99**	**–**	**–**	**–**	**8**	**11**	**3,765**
Capital Work in Progress (*)	9.13	59,915	15,657	–	–	(2,540)	(254)	(16,292)	56,486
Total works in progress		**59,915**	**15,657**	**–**	**–**	**(2,540)**	**(254)**	**(16,292)**	**56,486**
Total property, infrastructure, plant and equipment		**2,366,394**	**19,444**	**803,646**	**(27,490)**	**(5,003)**	**(763)**	**–**	**3,156,228**

Other movements
Represents the transfer of assets between asset classes. $254,000 of Capital Work in Progress was transferred to Intangibles (see Note 6.2), $733,000 of Land was transferred to Assets Held for Sale (see Note 4.5) and $224,000 of Intangibles was reclassified to Plant & Equipment (see note 6.2).

(*) The 2024 closing balance has been restated for Works in progress. See Note 9.13 for further details.

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 6. Non-current assets (continued)

Accounting policy

Recognition and measurement of assets
Acquisitions of assets are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

Property, plant and equipment and infrastructure received in the form of contributions, are recognised as assets and revenues at fair value by Council valuation where that value exceeds the recognition thresholds for the respective asset class. Fair value is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.

Where assets are constructed by Council, cost includes all materials used in construction, direct labour, borrowing costs incurred during construction, and an appropriate share of directly attributable variable and fixed overheads.

The asset classes below have been recognised. In accordance with Council's policy, a $500 threshold limit has been applied when recognising assets within each applicable asset class and unless otherwise stated are consistent with the prior year.

Revaluation

Council has adopted the following valuation bases for its non-current assets:

Land	Fair Value
Land Under Roads	Fair Value
Buildings	Fair Value
Land Improvements	Fair Value
Plant and Equipment	Cost
Pathways and Cycleways	Fair Value
Stormwater	Fair Value
Roads and Bridges	Fair Value

Subsequent to the initial recognition of assets, non-current physical assets, other than plant and equipment are measured at their fair value in accordance with AASB 116 *Property, Plant & Equipment* and AASB 13 *Fair Value Measurement*. At balance date, Council reviewed the carrying value of the individual classes of assets measured at fair value to ensure that each asset class materially approximated its fair value. Where the carrying value materially differed from the fair value at balance date the class of asset was revalued.

Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis to ensure valuations represent fair value. Valuations are performed either by experienced Council officers or independent experts. Between such valuations, Council considers, and when necessery, applies indexation to assets to ensure the carrying values continue to represent fair values.

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use on an asset result in changes to the permissible or practical highest and best use of the asset.

Where the assets are revalued, the revaluation increments are credited directly to the asset revaluation reserve except to the extent that an increment reverses a prior year decrement for that class of asset that had been recognised as an expense, in which case the increment is recognised as revenue up to the amount of the expense. Revaluation decrements are recognised as an expense except where prior increments are included in the asset revaluation surplus for that class of asset, in which case the decrement is taken to the reserve to the extent of the remaining increments. Within the same class of assets, revaluation increments and decrements within the year are offset.

Impairment of assets
Impairment losses are recognised in the Statement of Comprehensive Income under other expenses. Reversals of impairment losses are recognised in the Statement of Comprehensive Income under other revenue.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 6. Non-current assets (continued)

	2025 $ '000	2024 $ '000
6.2 Intangible assets		
Software	**5,106**	4,746
Valuation Roll	**–**	456
Total intangible assets	**5,106**	5,202

	Software $ '000	Valuation Roll $ '000	Total $ '000
Gross Carrying Amount			
Balance at 1 July 2023	7,296	1,017	8,313
Additions / Transfers	(293)	547	254
Disposals	(43)	(1,017)	(1,060)
Other	(224)	–	(224)
Balance at 30 June 2024	6,736	547	**7,283**
Additions / Transfers	1,280	–	1,280
Disposals	–	(547)	(547)
Balance at 30 June 2025	8,016	–	**8,016**
Accumulated amortisation and impairment			
Balance at 1 July 2023	1,318	1,017	2,335
Disposals	–	(1,017)	(1,017)
Amortisation expense	672	91	763
Balance at 30 June 2024	1,990	91	**2,081**
Disposals	–	(191)	(191)
Amortisation expense	919	100	1,019
Balance at 30 June 2025	2,909	–	**2,909**
Net book value at 30 June 2024	4,746	456	5,202
Net book value at 30 June 2025	5,106	–	5,106

Accounting policy

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

In accordance with Council's policy, the threshold limits applied when recognising intangible assets is $500 and consistent with the prior year.

The estimated useful lives of software is 7 years.

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 6. Non-current assets (continued)

	Plant and equipment $ '000	Buildings $ '000	Land Improvements $ '000	Total $ '000
6.3 Right-of-use assets				
a) Right-of-use assets				
2025				
Opening Balance at 1 July 2024	**41**	**8,457**	**25**	**8,523**
Additions	**28**	**111**	**–**	**139**
Depreciation expense	**(40)**	**(942)**	**(11)**	**(993)**
Balance at 30 June 2025	**29**	**7,626**	**14**	**7,669**
2024				
Opening Balance at 1 July 2023	87	9,122	35	9,244
Additions	–	265	–	265
Depreciation expense	(46)	(930)	(10)	(986)
Balance at 30 June 2024	41	8,457	25	8,523

Accounting policy

Leases - Council as Lessee
In contracts where Council is a lessee, Council recognises a right-of-use asset and a lease liability at the commencement date of the lease, unless the short-term or low-value exemption is applied. Refer to note 7.4 for details on accounting policy of lease liability.

A right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability adjusted for any lease payments made before the commencement date (reduced by lease incentives received), plus initial direct costs incurred in obtaining the lease and an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

All right-of-use assets are measured as described in the accounting policy for property, infrastructure, plant and equipment in note 6.1. Also, Council applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the aforesaid note.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Council expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

b) Concessionary leases

Accounting policy
Council has elected to measure a class (or classes) of right-of-use assets as 'concessionary leases' at initial recognition at cost, in accordance with AASB 16.23–25.

These leases have significantly below-market terms and conditions principally to enable Council to further its objectives.

These leases are for minimal value, have terms of between 10 and 99 years and are mainly used for public amenities, recreation spaces, car parking and walkways. The leased areas must be used for their purposes and Council must ensure there are no actions that will negatively impact the areas.

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 6. Non-current assets (continued)

	2025 $ '000	2024 $ '000
6.4 Other assets		
Current		
Prepayments	**1,607**	1,164
Total current other assets	**1,607**	1,164
Non-current		
Employee Benefits - Defined-benefit superannuation plan	**2,513**	3,013
Total non-current other assets	**2,513**	3,013

Notes to the Financial Report

for the year ended 30 June 2025

Note 7. Current liabilities

	2025 $ '000	2024 $ '000
7.1 Trade and other payables		
Current		
Trade Creditors	**5,549**	4,299
Rates Revenue Received in Advance	**1,408**	1,181
Wages and Salaries	**1,286**	1,040
Licences and Registrations Paid in Advance	**275**	269
Payroll Tax	**274**	273
Accrued Interest Expense	**225**	249
Energy Costs	**187**	191
Fringe Benefits Tax	**46**	68
Accrued Capital Expenditure	**27**	48
Workers Compensation Insurance	**(170)**	767
Other	**1,386**	749
Total current trade and other payables	**10,493**	9,134

Accounting policy
Liabilities are recognised for amounts to be paid in the future for goods and services provided to Council as at balance date whether or not invoices have been received. General creditors are unsecured, not subject to interest charges and are normally settled between within 30 days of invoice date.

Rates revenue received in advance represents amounts received by Council prior to the commencement of the rating or charging period. Revenue is recognised by Council at the beginning of the rating or charge period to which the advance payment relates.

For ageing analysis of trade and other payables, refer to note 9.11.

7.2 Trust funds and deposits		
Current		
Refundable Infrastructure Bonds	**1,298**	1,607
Deposits held for Travel Operators	**659**	621
Contract Retention monies	**39**	39
Other	**110**	95
Total current trust funds and deposits	**2,106**	2,362

Accounting policy
Amounts received as deposits and retention amounts controlled by Council are recognised as Trust funds until they are returned or forfeited.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 7. Current liabilities (continued)

	Annual leave $ '000	Long service leave $ '000	Sick leave $ '000	Superannuation $ '000	Payroll tax $ '000	Landfill rehabilitation $ '000	Dismantling $ '000	Total $ '000
7.3 Provisions								
2025								
Balance at the beginning of the financial year	**4,196**	**5,230**	**1,996**	**1,241**	**772**	**4,182**	**124**	**17,617**
Adjustment to provisions recognised	**5,013**	**1,406**	**2,218**	**8,111**	**3,850**	**(14)**	**–**	**20,584**
Expenditure incurred	**(4,927)**	**(973)**	**(2,155)**	**(8,002)**	**(3,807)**	**(2)**	**–**	**(19,866)**
Unwinding of discount and effect of changes in the discount rate	**–**	**–**	**–**	**–**	**–**	**174**	**2**	**174**
Balance at the end of the financial year	**4,282**	**5,663**	**2,059**	**1,350**	**815**	**4,340**	**126**	**18,509**
Current	**3,986**	**4,106**	**1,474**	**1,099**	**651**	**26**	**–**	**11,342**
Non-current	**296**	**1,557**	**585**	**251**	**164**	**4,314**	**126**	**7,293**
Total	**4,282**	**5,663**	**2,059**	**1,350**	**815**	**4,340**	**126**	**18,509**
2024								
Balance at the beginning of the financial year	4,252	5,102	2,029	1,180	766	4,572	120	17,901
Adjustment to provisions recognised	5,188	1,013	2,218	8,540	3,961	(244)	–	20,676
Expenditure incurred	(5,244)	(885)	(2,251)	(8,479)	(3,955)	(287)	–	(21,101)
Unwinding of discount and effect of changes in the discount rate	–	–	–	–	–	141	4	141
Balance at the end of the financial year	4,196	5,230	1,996	1,241	772	4,182	124	17,617
Current	3,846	4,046	1,448	1,041	633	2	–	11,016
Non-current	350	1,184	548	200	139	4,180	124	6,725
Total	4,196	5,230	1,996	1,241	772	4,182	124	17,617

	2025 $ '000	2024 $ '000
Weighted average discount rates	**3.58%**	4.18%
Expected rates of salary increase	**3.00%**	3.00%

Accounting policy

(a) Employee benefits

i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave, payroll tax on leave, superannuation on leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period, and are measured at the amounts expected to be paid when the liabilities are settled.

ii) Other long term employee benefit obligations

The liability for long service leave, annual leave, payroll tax on leave, superannuation on leave and accumulating sick leave which is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is

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Notes to the Financial Report
for the year ended 30 June 2025

Note 7. Current liabilities (continued)

	2025 $ '000	2024 $ '000

given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the Statement of Financial Position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

iii) Sick leave
The liability for employee entitlements to sick leave is equivalent to 17.5 per cent of total accumulated sick leave entitlements at the reporting date because this amount is payable to employees on retirement or resignation.

iv) Defined benefit plans
A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the Statement of Financial Position and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

v) Defined contribution plans
Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Landfill restoration
Accounting policy

Land fill restoration
In accordance with the *Environmental Management and Pollution Control Act 1994* and the *Waste and Resource Recovery Act 2022*, the Council is required to rehabilitate the McRobies Gully landfill site. The forecast life of the site is based on current estimates of remaining capacity and the forecast rate of infill. The provision for landfill restoration has been calculated based on the present value of the expected cost of works to be undertaken. The expected cost of works has been estimated based on current understanding of work required to reinstate the site to a suitable standard. Accordingly, the estimation of the provision required is dependent on the accuracy of the forecast timing of the work, work required and related costs.

Council reviews the landfill restoration provision on an annual basis, including the key assumptions listed below.

Key assumptions:		
Average discount rate	**4.15%**	4.37%

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 7. Current liabilities (continued)

	2025 $ '000	2024 $ '000
7.4 Lease Liabilities		
Current		
Lease liabilities	**976**	959
Total current lease liabilities	**976**	959
Non-current		
Lease liabilities	**8,015**	8,858
Total non-current lease liabilities	**8,015**	8,858

Lease liabilities are secured by the related underlying assets. Future minimum lease payments were as follows:

	Minimum lease payments due						
	Within 1 Year $ '000	1-2 Years $ '000	2-3 Years $ '000	3-4 Years $ '000	4-5 Years $ '000	After 5 Years $ '000	Total $ '000
As at 30 June 2025							
Lease payments	**1,217**	**1,203**	**1,205**	**1,206**	**1,203**	**4,113**	**10,147**
Finance charges	**(241)**	**(213)**	**(186)**	**(156)**	**(126)**	**(234)**	**(1,156)**
Net present value	**976**	**990**	**1,019**	**1,050**	**1,077**	**3,879**	**8,991**
As at 30 June 2024							
Lease payments	1,223	1,196	1,181	1,183	1,185	5,254	11,222
Finance charges	(264)	(237)	(210)	(183)	(154)	(357)	(1,405)
Net present value	959	959	971	1,000	1,031	4,897	9,817

The Council's lease liabilities mainly relate to the lease of car parks.

Concessionary Leases
The Council has additional leases which are not recognised above. Please see Note 6.3(b) for further details.

Accounting policy

Leases - Council as Lessee
"The lease liability is measured at the present value of outstanding payments that are not paid at balance date, discounted by using the rate implicit in the lease. Where this cannot be readily determined then Council's incremental borrowing rate for a similart term with similar security is used.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Short-term leases and leases of low-value assets
Council has elected not to recognise right-of-use assets and lease liabilities for short-term leases i.e. leases with a lease term of 12 months or less and leases of low-value assets i.e., when the value of the leased asset when new is $10,000 or less. Council recognises the lease payments associated with these leases as expense on a straight-line basis over the lease term.

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Notes to the Financial Report

for the year ended 30 June 2025

Note 7. Current liabilities (continued)

	Note	2025 $ '000	2024 Restated $ '000
7.5 Contract liabilities			
Current			
Grants received in advance:			
Grants & Contributions Received Prior to Performance Obligations Being Satisfied		**3,243**	8,250
Total grants received in advance		**3,243**	8,250
User fees received in advance:			
Doone Kennedy Hobart Aquatic Centre Memberships Paid in Advance		**55**	62
Salamanca Market Rentals Paid in Advance		**161**	167
Metered Space Permits Paid in Advance		**27**	199
Other Revenue Paid in Advance		**269**	191
Rates Equivalency Received Prior to Performance Obligations Being Satisfied *	9.13	**1,162**	871
Total user fees received in advance		**1,674**	1,490
Total current contract liabilities		**4,917**	9,740

Accounting policy
Council recognised the following contactual liabilites:

i) Grant funds received in advance includes funds received on a number of capital and operating projects. The funds received are covered by grant agreements where the performance obligations have not yet been satisfied. The revenue is recognised as Council constructs any assets or completes the obligations, and the contract liability reflects the funding received which cannot yet be recognised as revenue. Revenue is expected to be recognised in the next 12 months.

ii) Upfront membership fees at the Doone Kennedy Hobart Aquatic Centre, rentals at Salamanca Market, metered space permits and other revenue with customers are recognised as a contract liability until the performance obligations are satisfied. Revenue is recognised as performance obligations are progressively fulfilled.

iii) Rates equivalency revenue received in advance from University of Tasmania (UTAS). These funds come with a commitment to undertake future capital work in consultation with UTAS and are recognised as a contract liability until the performance obligations are satisfied. Revenue is recognised as performance obligations are progressively fulfilled.

Revenue recognised that was included in the contract liability balance at the beginning of the period		
Doone Kennedy Hobart Aquatic Centre Memberships	**62**	50
Salamanca Market Rentals	**167**	54
Metered Space Permits	**199**	240
Grants and Contributions	**5,026**	3,554
Other Revenue	**191**	693
	5,645	4,591

(*) The 2024 closing balance has been restated for Rates Equivalency revenue received in advance. See Note 9.13 for further details.

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 8. Non-current liabilities

	2025 $ '000	2024 $ '000
8.1 Interest-bearing loans and borrowings		
Current		
Borrowings - secured	**3,331**	4,064
	3,331	4,064
Non-current		
Borrowings - secured	**32,465**	35,796
	32,465	35,796
Total	**35,796**	39,860

All loans are secured by Council revenues. Repayments are made biannually in arrears, and interest expense is accrued at the contracted rate and included in payables.

a) The maturity profile for Council's borrowings is:		
Not later than one year	**3,331**	4,064
Later than one year and not later than five years	**14,522**	14,035
Later than five years	**17,943**	21,761
Total	**35,796**	39,860

Accounting policy

The borrowing capacity of Council is limited by the *Local Government Act 1993*. Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial recognition these liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the liability using the effective interest method.

Interest is expensed as it accrues and no interest has been capitalised during the current or comparative reporting period. There have been no defaults or breaches of the loan agreement during the period. Borrowings are secured by way of mortgages over the general rates and other revenue of the Council.

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information

	Balance at beginning of reporting year $ '000	Increment $ '000	Decrement $ '000	Balance at end of reporting year $ '000
9.1 Reserves				
(a) Asset revaluation reserves				
2025				
Property				
Land	262,838	–	(1,291)	261,547
Land under roads	1,232,667	–	–	1,232,667
Land improvements	41,517	1,131	–	42,648
Buildings	89,736	1,192	–	90,928
	1,626,758	2,323	(1,291)	1,627,790
Infrastructure				
Footpaths and cycleways	18,530	1,882	–	20,412
Drainage	187,221	3,089	–	190,310
Roads and Bridges	295,723	5,081	–	300,804
	501,474	10,052	–	511,526
Other Property				
Valuables	96,820	–	–	96,820
	96,820	–	–	96,820
Total asset revaluation reserves	2,225,052	12,375	(1,291)	2,236,136
2024				
Property				
Land	256,935	5,903	–	262,838
Land under roads	470,256	762,411	–	1,232,667
Land improvements	36,179	5,338	–	41,517
Buildings	81,633	8,103	–	89,736
	845,003	781,755	–	1,626,758
Infrastructure				
Footpaths and cycleways	14,869	3,661	–	18,530
Drainage	178,641	8,580	–	187,221
Roads and Bridges	286,074	9,649	–	295,723
	479,584	21,890	–	501,474
Other Property				
Valuables	96,820	–	–	96,820
	96,820	–	–	96,820
Total asset revaluation reserves	1,421,407	803,645	–	2,225,052

The asset revaluation reserve was established to capture the movements in asset valuations upon the periodic revaluation of Council's assets.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

	Balance at beginning of reporting year $ '000	Increment $ '000	Decrement $ '000	Balance at end of reporting year $ '000
(b) Fair value reserve				
2025				
Equity Investment assets				
Investment in TasWater	**(19,871)**	**3,451**	**–**	**(16,420)**
Total fair value reserve	**(19,871)**	**3,451**	**–**	**(16,420)**
2024				
Equity Investment assets				
Investment in TasWater	(28,697)	8,826	–	(19,871)
Total fair value reserve	(28,697)	8,826	–	(19,871)

Council has to designate its investment in Taswater as an equity investment at fair value through other comprehensive income. Subsequent changes in fair value are reflected in the reserve and will not be reclassified through the profit or loss when derecognised.

	Balance at beginning of reporting year $ '000	Transfers from $ '000	Transfers To $ '000	Balance at end of reporting year $ '000
(c) Other reserves				
2025				
Asset Replacement	**3,609**	**(26,459)**	**22,850**	**–**
Bushland Fund	**9**	**–**	**53**	**62**
Contributions in Lieu of Parking	**–**	**–**	**–**	**–**
Contributions in Lieu of Public Open Space	**20**	**–**	**70**	**90**
Heritage Account	**1,809**	**(16)**	**152**	**1,945**
Total Other reserves	**5,447**	**(26,475)**	**23,125**	**2,097**
2024				
Asset Replacement	22,139	(18,530)	–	3,609
Bushland Fund	217	(267)	59	9
Contributions in Lieu of Parking	135	(135)	–	–
Contributions in Lieu of Public Open Space	352	(409)	77	20
Heritage Account	1,663	–	146	1,809
Total Other reserves	24,506	(19,341)	282	5,447

Asset Replacement Reserve
The Council maintains a reserve for the replacement of its assets. Revenue and loans raised for this purpose are transferred to the reserve, whilst expenditure incurred on replacing existing assets is transferred from the reserve. The balance of the reserve represents expenditure which Council expects to incur in future reporting periods on replacing its assets.

Bushland Fund
The Council has established a Bushland Fund and allocated funds from revenue to the reserve. The reserve was established for the purpose of purchasing strategic areas of bushland and open space.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

Contributions in Lieu of Parking
The Council previously maintained a reserve to separately account for funds provided to Council for the express purpose of providing parking facilities throughout the city. This reserve is now closed.

Contributions in Lieu of Public Open Space
The Council maintains a reserve to separately account for funds provided to Council for the express purpose of providing areas of public open space throughout the city.

Heritage Account
The Council has established a Heritage Account as required by the *National Trust Preservation Fund (Winding-up) Act 1999*. Amounts transferred to the account include the initial distribution from the National Trust Preservation Fund, together with interest accruing on the balance of the account.

The Act requires that funds transferred into the Heritage Account be applied for the provision of financial or other assistance in relation to an entry in either the National Trust Register kept by the National Trust of Australia (Tasmania), or the Tasmanian Heritage Register.

Fair Value Reserve
The Council maintains a fair value reserve in order to account for gains and losses on its TasWater equity investment as required by AASB 9 *Financial Instruments*.

Asset Revaluation Reserve
The Council maintains an asset revaluation reserve in order to account for asset revaluation increments and decrements in accordance with AASB 116 *Property, Plant and Equipment*.

	2025 $ '000	2024 $ '000
Total reserves	**2,221,813**	2,210,628

	2025 $ '000	2024 $ '000
9.2 Reconciliation of cash flows from operating activities to surplus/(deficit)		
Result from continuing operations	**20,365**	10,101
Depreciation/amortisation	**29,140**	28,253
Depreciation of right-of-use assets	**993**	986
Profit/(loss) on disposal of property, infrastructure, plant and equipment	**2,232**	3,956
Contributions - Non-monetary assets	**–**	(80)
Capital grants received specifically for new or upgraded assets	**(5,165)**	(3,909)
Change in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(788)**	(772)
(Increase)/decrease in inventories	**6**	(68)
(Increase)/decrease in prepayments	**(443)**	(273)
Increase/(decrease) in other assets	**500**	367
Increase/(decrease) in trade and other payables	**1,258**	(3,201)
Increase/(decrease) in provisions	**215**	(1,117)
Increase/(Decrease) in Trust Funds, Deposits and Retentions	**(256)**	(34)
Increase/(decrease) in contract liabilities	**(713)**	788
Net cash provided by/(used in) operating activities	**47,344**	34,997

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information

9.3 Reconciliation of liabilities arising from financing activities

Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Statement of Cash Flows as cash flows from financing activities.

	Interest-bearing loans and borrowings $ '000	Lease liabilities $ '000
2025		
Balance as at 1 July 2024	**39,860**	**9,817**
Acquisitions / New leases	**–**	**28**
Lease Remeasurement	**–**	**111**
Changes from financing cash flows:		
Cash repayments	**(4,064)**	**(965)**
Balance as at 30 June 2025	**35,796**	**8,991**
2024		
Balance as at 1 July 2023	49,992	10,472
Lease Remeasurement	–	266
Changes from financing cash flows:		
Cash repayments	(10,132)	(921)
Balance as at 30 June 2024	39,860	9,817

	Note	2025 $ '000	2024 $ '000
9.4 Reconciliations of cash and cash equivalents			
Cash and cash equivalents	4.1	**18,946**	11,740
Total Reconciliations of Cash & Cash Equivalents		**18,946**	11,740
9.5 Financing arrangements			
Facility Limit		**1,000**	1,000
Total facilities		**1,000**	1,000
Used facilities		**87**	90
Used facilities		**87**	90
Unused facilities		**913**	910

Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 9. Other financial information (continued)

9.6 Superannuation

The Council makes the following defined-contributions to superannuation:

- 11.5 per cent and 13 per cent of wages and salaries for casual employees, depending on the enterprise agreement;
- 13 per cent of wages and salaries for full-time and part-time employees who commenced after 11 March 2003; and
- 4.5 per cent of wages and salaries for full-time and part-time employees who commenced prior to 11 March 2003.

In respect of those full-time and part-time employees who commenced employment with Council prior to 11 March 2003, Council also contributes to a defined-benefit superannuation plan. From 1 July 2014, the level of contribution was set at 9.5 per cent. Employee contributions are 6 per cent of wages and salaries. Employees are entitled to benefits on resignation, retirement, disability or death. The fund provides a defined-benefit based on years of service and final average salary.

An actuarial assessment of the fund was carried out by GM Actuaries Pty Ltd for the purpose of providing figures in accordance with AASB 119 *Employee Benefits*. An assessment report was received on 21 July 2025 and this revealed the following:

Key assumptions	**As at 30 June 2025**	**As at 30 June 2024**
Discount Rate - gross of tax	3.50%	4.00%
Expected rates of salary increase:		
- 2024/25	3.00%	6.86%
- thereafter	2.75%	3.00%

	2025 **$ '000**	2024 $ '000
The amount included in expenses is as follows:		
Employee Costs		
- Current Service Cost	**403**	645
Finance Costs		
- Interest Cost	**815**	889
- Return on plan assets	**(1,127)**	(1,135)
- Adjustment for limit on net assets	**163**	103
	254	502
Actuarial gains and losses recognised in respect of the defined-benefit plan were as follows:		
Actuarial (gains)/losses incurred during the period and recognised in other comprehensive income	**633**	325
Cumulative actuarial (gains)/losses recognised in other comprehensive income	**1,131**	498
	1,764	823
The amount included in the Statement of Financial Position arising from Council's obligation in respect of its defined-benefit plan is as follows:		
Present value of defined-benefit obligation	**19,849**	22,235
Fair value of plan assets	**(28,653)**	(30,035)
Adjustment for limit on net asset	**6,291**	4,787
	(2,513)	(3,013)

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Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

	2025 $ '000	2024 $ '000
Movements in the net liability/(asset) were as follows:		
Opening liability/(asset)	**(3,013)**	(3,380)
Expense recognised in surplus/(deficit)	**254**	502
Remeasurement of the net defined benefit	**633**	325
Employer contributions	**(387)**	(460)
Closing liability/(asset)	**(2,513)**	(3,013)
Movements in the present value of the defined-benefit obligation were as follows:		
Opening defined-benefit obligation	**22,235**	22,982
Current Service Cost	**403**	645
Interest Cost	**815**	889
Member contributions and transfers from other funds	**248**	287
Actuarial (gains)/losses	**796**	176
Benefits and tax paid	**(4,648)**	(2,744)
	19,849	22,235
Movements in the fair value of the plan assets were as follows:		
Opening fair value of plan assets	**30,035**	29,388
Interest income on plan assets	**1,127**	1,135
Return on plan assets in excess of interest income	**1,504**	1,509
Employer contributions	**387**	460
Member contributions and transfers from other funds	**248**	287
Benefits paid	**(4,648)**	(2,744)
Closing fair value of plan assets	**28,653**	30,035

Changes in the key actuarial assumptions at the reporting date would have the following effect on the net defined benefit asset:

	0.25% increase $ '000	0.25% decrease $ '000
Discount rate	(135)	156
Salary increase rate	157	(138)

	2.50% increase $ '000	2.50% decrease $ '000
Asset value	No Change	No Change

In the table above, a +/- 2.50% change in the Asset value of the Fund does not impact on the net defined benefit asset recognised by the Council because of the impact of the asset ceiling.

Defined-benefit-plan assets are invested in a balanced strategy with growth asset classes (e.g. shares and property) and defensive asset classes (e.g. fixed interest and cash). The table below shows the actual asset allocations of fund assets (as advised by the Scheme administrators):

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Notes to the Financial Report
for the year ended 30 June 2025

Note 9. Other financial information (continued)

	As at 30 June 2025 %	As at 30 June 2024 %
Australian Shares	17.9	23.0
International Shares	17.6	31.0
Private Equity	2.4	5.0
Unlisted Property	3.7	9.0
Fixed interest and Credit	20.9	14.0
Infrastructure	7.2	10.0
Alternative Assets	7.9	0.0
Cash	22.4	8.0
Total	100	100

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

9.7 Commitments

The Council has entered into the following commitments. Commitments are not recognised in the Balance Sheet. Commitments are disclosed at their nominal value and presented exclusive of the GST payable.

	Not later than 1 year $ '000	Later than 1 year and not later than 5 years $ '000	Later than 5 years $ '000	Total $ '000
2025				
Capital expenditure commitments				
Queenborough Oval Changerooms Redevelopment	**1,384**	**–**	**–**	**1,384**
New Town Rivulet Outfall - Bank Reinstatement	**733**	**–**	**–**	**733**
Doone Kennedy Hobart Aquatic Centre Moveable Bulkhead	**414**	**–**	**–**	**414**
Pinnacle Road Guard Rail Stage 4	**247**	**–**	**–**	**247**
Greater Hobart Ferry Service Expansion	**197**	**–**	**–**	**197**
Argyle Street Car Park Concrete Remediation	**165**	**–**	**–**	**165**
Selfs Point Basketball Stadium	**165**	**–**	**–**	**165**
Pipeline Track Extension - City to Mountain	**151**	**–**	**–**	**151**
McRobies Outlet GPT Installation	**159**	**–**	**–**	**159**
Staff Office Accommodation Relocation	**149**	**–**	**–**	**149**
Plant and Equipment Purchases	**144**	**–**	**–**	**144**
Doone Kennedy Hobart Aquatic Centre 50m Concourse Tiling	**111**	**–**	**–**	**111**
Multi Story Car Park Infrastructure Replacement	**110**	**–**	**–**	**110**
Upgrade of Council Chambers	**107**	**–**	**–**	**107**
Doone Kennedy Hobart Aquatic Centre Ceiling Insulation and Moisture Barrier	**102**	**–**	**–**	**102**
Other	**490**	**–**	**–**	**490**
Total capital expenditure commitments	**4,828**	**–**	**–**	**4,828**
2024				
New Town Rivulet Outfall - Bank Reinstatement	116	–	–	116
Pinnacle Road Guard Rail Stage 4	429	–	–	429
Greater Hobart Ferry Service Expansion	154	–	–	154
Plant and Equipment Purchases	3,114	–	–	3,114
Doone Kennedy Hobart Aquatic Centre 50m Concourse Tiling	137	–	–	137
Parking Meters Upgrade 3G to 4G	629	–	–	629
New Town Road Bridge	395	–	–	395
Pinnacle Road Guardrail Renewal	265	–	–	265
Knocklofty to McRobies Gully Connector	168	–	–	168
Parking Sensor Replacement	155	–	–	155
Other	653	–	–	653
Total capital expenditure commitments	6,215	–	–	6,215

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

9.8 Operating leases as lessor

Council is a lessor and enters into agreements with a number of lessees. These include commercial and non-commercial agreements.

Where leases are non-commercial agreements, these are generally with not for profit sport, recreational and community organisations. In these cases subsidised or peppercorn rents are charged because Council recognises part of its role is community service and community support. In these situations, Council records lease revenue on an accruals basis and records the associated properties as part of land and buildings within property, plant and equipment. Buildings are recognised at depreciated replacement cost.

Where leases are commercial agreements, but properties leased are part of properties predominantly used by Council for its own purposes, Council records lease revenue on an accruals basis and records the associated properties as part of land and buildings within property, plant and equipment. Buildings are recognised at current replacement cost.

The future (undiscounted) lease payments to be received on an annual basis for all operating leases is at follows:

	2025 **$ '000**	2024 $ '000
Maturity analysis of operating lease payments to be received		
Year 1	**972**	573
Year 2	**753**	479
Year 3	**737**	307
Year 4	**653**	288
Year 5	**587**	287
Later than 5 years	**5,553**	5,511
Total	**9,255**	7,445
The following table presents the amounts reported in profit or loss:		
Lease income on operating leases	**1,612**	1,260
Therein lease income relating to variable lease payments that do not depend on an index or rate	**2**	2

Council's operating lease receivables mainly result from property leases

	2025 **$ '000**	2024 $ '000

9.9 Contingent liabilities and contingent assets

(a) Contingent liabilities

Council is currently acting as guarantor for the following loans:

Southern Tasmanian Netball Association	**631**	631
Total	**631**	631

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 9. Other financial information (continued)

9.10 Financial instruments

Managing financial risk
Council has exposure to the following risks from its use of financial instruments:

(a) Interest rate risk
(b) Credit risk
(c) Liquidity risk; and
(d) Market risk.

The Chief Executive Officer has overall responsibility for the establishment and oversight of Council's risk management framework. Risk management policies are established to identify and analyse risks faced by Council, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

(a) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities used. Non-derivative interest bearing assets are predominantly short term liquid assets. Council's interest rate liability risk arises primarily from long term loans and borrowings at fixed rates which exposes it to fair value interest rate risk.

Council's loan borrowings are sourced from major Australian financial instiutions via a quotation process. Interest rate risk is managed on the net debt portfolio by:

- ensuring access to diverse sources of funding,
- reducing risks of refinancing by managing in accordance with target maturity profiles, and
- setting prudential limits on interest repayments as a percentage of revenue.

The Council manages the interest rate exposure on its debt portfolio by appropriate budgeting strategies and obtaining approval for borrowings from the Department of Treasury and Finance each year.

Investment of surplus funds is made with approved financial institutions under the *Local Government Act 1993* and Council's policies. Council manage interest rate risk by adopting an investment policy that ensures:

- conformity with the *Local Government Act 1993*,
- capital protection,
- appropriate liquidity,
- limiting exposure and investment value by credit rating, financial institution and product,
- monitoring of return on investment,
- benchmarking of returns and comparison with budget.

Maturity is staggered to provide for interest rate variations and to minimise interest rate risk.

The exposure to interest rate risk and the effective interest rates of financial assets and non-lease financial liabilities, both recognised and unrecognised, at balance date are as follows. For lease liabilities refer to note 7.4.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

	Weighted average interest rate	Floating interest rate	Fixed interest maturing in 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
		$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
2025							
Financial assets							
Cash and cash equivalents	4.59%	18,888	–	–	–	58	18,946
Investments	4.59%	–	72,000	–	–	–	72,000
Trade and other receivables	2.16%	2,366	–	–	–	6,821	9,187
Investment in TasWater		–	–	–	–	180,300	180,300
Total financial assets		21,254	72,000	–	–	187,179	280,433
Financial liabilities							
Trade and other payables		–	–	–	–	10,493	10,493
Trust funds and deposits		–	–	–	–	2,106	2,106
Interest-bearing loans and borrowings	3.45%	–	3,331	14,522	17,943	–	35,796
Total financial liabilities		–	3,331	14,522	17,943	12,599	48,395
Net financial assets (liabilities)		21,254	68,669	(14,522)	(17,943)	174,580	232,038
2024							
Financial assets							
Cash and cash equivalents	5.07%	11,677	–	–	–	63	11,740
Investments	5.18%	–	61,000	–	–	–	61,000
Trade and other receivables	1.79%	1,858	–	–	–	6,541	8,399
Investment in TasWater		–	–	–	–	176,849	176,849
Total financial assets		13,535	61,000	–	–	183,453	257,988
Financial liabilities							
Trade and other payables		–	–	–	–	9,134	9,134
Trust funds and deposits		–	–	–	–	2,362	2,362
Interest-bearing loans and borrowings	3.39%	–	4,064	14,035	21,761	–	39,860
Total financial liabilities		–	4,064	14,035	21,761	11,496	51,356
Net financial assets (liabilities)		13,535	56,936	(14,035)	(21,761)	171,957	206,632

(b) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause Council to make a financial loss. Council has exposure to credit risk on some financial assets included in its Statement of Financial Position.
To help manage this risk:

- Council establishes credit limits for some customers it deals with, particularly custromers of the McRobies Gully Waste Management Centre, and
- Council only invests surplus funds with financial institutions which have a recognised credit rating specified in its investment policy.

Credit risk arises from Council's financial assets, which comprise cash and cash equivalents, and trade and other receivables. Council's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable policy note. Council generally trades with recognised, creditworthy third parties, and as such collateral is generally not requested, nor is it Council's policy to securitise its trade and other receivables.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

It is Council's policy that some customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their credit rating, financial position, past experience and industry reputation. In addition, receivable balances are monitored on an ongoing basis with the result that Council's exposure to bad debts is not significant.

The maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is represented by the carrying amount of those assets as indicated in the Statement of Financial Position.

Council may also be subject to credit risk for transactions which are not included in the Statement of Financial Position, such as when Council provides a guarantee for another party. Details of Council's contingent liabilities are disclosed in note 9.9.

	2025	2024
	$ '000	$ '000
Ageing of other debtors within trade and other receivables		
At balance date Other Debtors, representing financial assets, were past due but not impaired. These amounts relate to a number of independent customers for whom there is no recent history of default. The ageing of the Council's Other Debtors was:		
Current (not yet due)	**984**	1,046
Past due by up to 30 days	**577**	440
Past due between 31 and 60 days	**131**	22
Past due between 61 and 90 days	**16**	14
Past due by more than 91 days	**278**	266
Total other debtors	**1,986**	1,788

Ageing of impaired other debtors within trade and other receivables

At balance date, Other Debtors, representing financial assets, with a nominal value of $14,746 (2023-24: $17,454) were impaired. The amount of the provision raised against these debtors was $14,746 (2023-24 $17,454). The individually impaired debtors relate to general and sundry debtors and have been impaired as a result of their doubtful collection. Many of the long outstanding past due amounts have been lodged with Council's debt collectors or are on payment arrangements.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

	2025 $ '000	2024 $ '000
The ageing of other debtors within trade and other receivables that have been determined as impaired at reporting date was:		
Current (not yet due)	–	–
Past due by up to 30 days	–	–
Past due between 31 and 60 days	–	–
Past due between 61 and 90 days	–	–
Past due by more than 91 days	15	17
Total impaired other debtors	**15**	17

(c) Liquidity risk

Liquidity risk includes the risk that, as a result of Council's operational liquidity requirements:

- Council will not have sufficient funds to settle a transaction on the date,
- Council will be forced to sell financial assets at a value which is less than what they are worth, or
- Council may be unable to settle or recover a financial assets at all.

Liquity risk is monitored through the development of rolling cash flow forecasts. Council's objective is to maintain a balance between continuity of funding and flexibility through the use of short-term investments and loans.

Council monitors rolling forecasts of liquity reserves on the basis of expected cash flow. The table below shows the contractual maturities for non-lease financial liabilities. For lease liabilities refer to Note 7.4.

Financial liabilities

	6 mths or less $ '000	6-12 months $ '000	1 - 2 years $ '000	2 - 5 years $ '000	> 5 years $ '000	Contracted cash flow $ '000	Carrying amount $ '000
2025							
Trade and other payables	**10,493**	**–**	**–**	**–**	**–**	**10,493**	**10,493**
Trust funds and deposits	**928**	**8**	**701**	**192**	**277**	**2,106**	**2,106**
Interest-bearing loans and borrowings	**1,646**	**1,685**	**3,448**	**11,074**	**17,943**	**35,796**	**35,796**
Total financial liabilities	**13,067**	**1,693**	**4,149**	**11,266**	**18,220**	**48,395**	**48,395**
2024							
Trade and other payables	9,134	–	–	–	–	9,134	9,134
Trust funds and deposits	1,019	11	273	356	703	2,362	2,362
Interest-bearing loans and borrowings	2,437	1,628	3,331	10,703	21,761	39,860	39,860
Total financial liabilities	12,590	1,639	3,604	11,059	22,464	51,356	51,356

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

(d) Market risk

Market risk is the risk that the fair value or future cash flows of Council's financial instruments will fluctuate because of changes in market prices. Council's exposures to market risk are primarily through interest rate risk with only insignificant exposure to other price risks and very limited exposure to foreign currency risk. Refer to the previous Interest Rate risk discussion for details on market risk exposures.

Sensitivity disclosure analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, Council believes the following movements are 'reasonably possible' over the next 12 months:

- A parallel shift of + 1% and -1% in variable market interest rates (AUD) from year-end rates.

The table below discloses the impact on net operating result and equity for each category of financial instruments held by Council at year-end, if the above movements were to occur.

		Interest rate risk -1% -100 basis points		Interest rate risk +1% +100 basis points	
		Profit	Equity	Profit	Equity
	$ '000	$ '000	$ '000	$ '000	$ '000
2025					
Financial assets:					
Cash and cash equivalents	**18,946**	**(189)**	**(189)**	**189**	**189**
Trade and other receivables	**9,187**	**(24)**	**(24)**	**24**	**24**
2024					
Financial assets:					
Cash and cash equivalents	11,740	(117)	(117)	117	117
Trade and other receivables	8,399	(19)	(19)	19	19

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 9. Other financial information (continued)

Fair value
The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at balance date are as follows:

	Total carrying amount as per the Statement of Financial Position 2025 $ '000	Total carrying amount as per the Statement of Financial Position 2024 $ '000	**Aggregate net fair value 2025 $ '000**	Aggregate net fair value 2024 $ '000
Financial instruments				
Financial assets				
Cash on Hand	**58**	63	**58**	63
Cash at Bank	**18,888**	11,677	**18,888**	11,677
Investments	**72,000**	61,000	**72,000**	61,000
Trade and other receivables	**9,187**	8,399	**9,187**	8,399
Investment in TasWater	**180,300**	176,849	**180,300**	176,849
Total financial assets	**280,433**	257,988	**280,433**	257,988
Financial liabilities				
Trade and other payables	**10,493**	9,134	**10,493**	9,134
Trust funds and deposits	**2,106**	2,362	**2,106**	2,362
Interest-bearing loans and borrowings	**35,796**	39,860	**33,623**	36,258
Total financial liabilities	**48,395**	51,356	**46,222**	47,754

9.11 Fair value measurements

Council measures and recognises the following assets at fair value on a recurring basis:

Investment in TasWater
Property, infrastructure plant and equipment
- Land
- Land Under Roads
- Buildings
- Land Improvements
- Pathways and Cycleways
- Stormwater
- Roads and Bridges
- Other Property

Council does not measure any liabilities at fair value on a recurring basis.

Council also has assets measured at fair value on a non-recurring basis as a result of being reclassified as assets held for sale. These comprise land as disclosed in note 4.5. A description of the valuation techniques and the inputs used to determine the fair value of this land is included below under the heading 'Land held for sale'.

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Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

a) Fair Value Hierarchy

AASB 13 *Fair Value Measurement* requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

Level 1:	Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2:	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3:	Unobservable inputs for the asset or liability.

The table below shows the assigned level for each asset and liability held at fair value by the Council. The table presents the Council's assets and liabilities measured and recognised at fair value at 30 June 2025.

The fair values of the assets are determined using valuation techniques which maximise the use of observable data, where it is available, and minimise the use of entity specific estimates. If one or more of the significant inputs is not based on observable market data, the asset is included in level 3. This is the case for Council infrastructure assets, which are of a specialist nature for which there is no active market for similar or identical assets. These assets are valued using a combination of observable and unobservable inputs.

	Note	Level 1 $ '000	Level 2 $ '000	Level 3 $ '000	Total $ '000
As at 30 June 2025					
Recurring fair value measurements					
Financial assets at fair value through profit or loss		–	775	–	775
Investment in TasWater	5.1	–	–	180,300	180,300
Land	6.1	–	322,255	–	322,255
Land under roads	6.1	–	1,872,314	–	1,872,314
Buildings	6.1	–	–	201,228	201,228
Land Improvements	6.1	–	–	129,963	129,963
Pathways and Cycleways	6.1	–	–	88,824	88,824
Stormwater	6.1	–	–	214,052	214,052
Roads and Bridges	6.1	–	–	239,786	239,786
Other Property	6.1	–	–	3,765	3,765
		–	2,195,344	1,057,918	3,253,262
Non-recurring fair value measurements					
Assets held for sale	4.5	–	17	–	17
		–	17	–	17
As at 30 June 2024					
Recurring fair value measurements					
Financial assets at fair value through profit or loss		–	686	–	686
Investment in TasWater	5.1	–	–	176,849	176,849
Land	6.1	–	323,547	–	323,547
Land under roads	6.1	–	1,875,171	–	1,875,171
Buildings	6.1	–	–	201,952	201,952
Land Improvements	6.1	–	–	133,037	133,037
Pathways and Cycleways	6.1	–	–	91,239	91,239
Stormwater	6.1	–	–	213,850	213,850
Roads and Bridges	6.1	–	–	240,478	240,478
Other Property	6.1	–	–	3,765	3,765
		–	2,199,404	1,061,170	3,260,574
Non-recurring fair value measurements					
Assets held for sale	4.5	–	733	–	733
		–	733	–	733

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 9. Other financial information (continued)

Transfers between levels of the hierarchy

Council's policy is to recognise transfers in and out of the fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

During the period there were no transfers between levels 1 and 2, nor between levels 2 and 3.

(b) Highest and best use

All assets valued at fair value in this note are being used for their highest and best use.

(c) Valuation techniques and significant inputs used to derive fair values

Land
Fair values for land were determined by the Valuer-General effective 1 July 2021, and are subsequently indexed annually by the land value adjustment factors published by the Valuer-General.

The land value adjustment factors are provided by land class and whether the land is vacant or not, and these are then applied to each parcel of land based on its classification.

During the period, these factors resulted in no increase to some parcels of land and a 5% decrease to others.

The next full land valuation is planned for 30 June 2028.

Assets Held for Sale
Assets classified as held for sale during the reporting period is land. Land was measured at the lower of its carrying amount and fair value less costs to sell at the time of reclassification. The fair value of the land was determined using the approach described in the preceding paragraph.

Land Under Roads
The value of the Land Under Road network at 30 June 2024 is based on valuation data determined by the Valuer-General effective as at 1 July 2024. The valuation approach uses adjusted land values and areas for all properties within the municipality depending upon its classification and then applying a discount appropriate to the respective classification. This adjustment is an unobservable input in the valuation. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently Land Under Road values range between $8.95 and $934.66 per square metre.

Buildings
Council derives fair value for buildings by relying on advice from qualified independent valuers, Knowledge Asset Management Pty Ltd, to provide information on:

- Market values - a comprehensive analysis of prevailing real estate market conditions, comparable property sales, and other relevant factors to determine the current market values.
- Replacement costs - an evaluation to assess the costs involved in constructing comparable properties.
- Condition assessment - a thorough examination of the physical condition and maintenance status of Council's specialised buildings.
- Square metre rates - rates for a range of typical building types to determine the fair value based on replacement cost.
- Car park rates per space - the replacement rates per car park space to determine the fair value of Council's car parks.

Council utilises this information together with additional data to ensure accuracy in determining the fair value of its buildings.

Council reviews the service potential of the building assets when deriving their fair values, taking into account the importance of each asset's functionality and contribution to Council and the community.

The physical deterioration of each building is determined by considering the age of each building compared to its total useful life.

Buildings were last revalued at 30 June 2023, and this period have been indexed using the Producer Price Indexes, Australia (Index Number 30 Building Construction Tasmania).

The next full Buildings valuation is planned for 30 June 2028.

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 9. Other financial information (continued)

Land Improvements
Land Improvements are a diverse range of asset types that do not fall under any other asset class. Unit rates are based on a considered average of internal estimates, external estimates and projected actual rates based on information provided by Council's engineering officers. The current replacement cost (CRC) for these assets is then calculated as the unit rate multiplied by the asset quantity.

Land Improvements were last revalued at 30 June 2022, and this period have been indexed using the Producer Price Indexes, Australia (Index Number 30 Building Construction Tasmania).

The next full Land Improvements valuation is planned for 30 June 2027.

Infrastructure Plant
All infrastructure assets have been valued using written down CRC. This valuation comprises the asset's gross replacement cost less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset. Council first determined the gross cost of replacing the full service potential of the asset and then adjusted this amount to take account of the expired service potential of the asset.

Council distinguishes significant asset types within its asset register for detailed review and consideration by its Financial Asset Information Review Panel. Significant asset types account for more than 80 per cent of the total value of the asset register, and these are aligned with approximately 60 of the 2,000 asset types identified. The remaining non-significant asset types are either indexed or adjusted separately where evidence is available to support alternative levels of adjustment.

The unit rates (labour and materials) and quantities applied to determine the CRC of a significant asset type were based on a "Brownfield" assumption meaning that the CRC was determined as the full cost of replacement with a modern equivalent asset type considering typical site conditions, restrictions and extent of works. Residual values are not applied to infrastructure assets.

The level of accumulated depreciation for infrastructure assets is determined based (as the default) on the age of the asset and the standard life aligned with the corresponding asset type. A program to adjust the default expiry date when the assets are listed for renewal on the current works program is gradually being implemented.

The calculation of CRC involves a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made by qualified and experienced staff, different judgements could result in a different valuation.

Pathways and Cycleways
Council has pathways and one cycleway representing approximately 465 kilometres, together with approximately 150 kilometres of walking tracks.

Pathways comprise six different material types, the most common being concrete, and are valued based on a unit rate for the material multiplied by the area of the pathway asset. The cycleway is sufficiently similar to a concrete footpath to be able to determine a CRC on that basis. Due to insufficient work being carried out recently on walking tracks, previous unit rates have been indexed and multiplied by track lengths to calculate CRC, based on information provided by Council's engineering officers.

Pathways and Cycleways were last revalued at 30 June 2022, and this period have been indexed using the Producer Price Indexes, Australia (Index Number 3101 Road and Bridge Construction Australia).

The next full Pathways and Cycleways valuation is planned for 30 June 2027.

Stormwater
Stormwater assets are grouped by stormwater catchment areas and contain all of those pipes, pits, manholes, inlets, outlets and constructed rivulets managing Hobart's stormwater, along with the few remaining water and sewer assets relating solely to Council operations.

For stormwater pipes and built rivulets the CRC is based on the asset dimension multiplied by a unit price; the unit price being an estimate of labour and material inputs, services costs, and overhead allocations. For each pipe size and for standard rivulet lining a modern equivalent definition exists for which prices are obtained from both internal and external sources to determine the lowest cost at which the gross future economic benefits of the asset could currently be obtained in the normal course of business. For the sewer and water mains the CRC is based on the asset dimension multiplied by a unit price; the unit price being an estimate of labour and material inputs, services costs, and overhead allocations determined by the Asset Manager and information provided by Council's engineering officers.

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 9. Other financial information (continued)

Stormwater was last revalued at 30 June 2020, and this period have been indexed using the Producer Price Indexes, Australia (Index Number 3109 Other Heavy and Civil Engineering Constriuction Australia).

The Council commenced the revaluation process for Stormwater during the year and further analysis is required prior to finalising the revaluation as at 30 June 2026.

Roads and Bridges

Sealed Roads, Kerb and Gutter
Council categorises its road infrastructure by an urban hierarchy classification. Roads are managed in segments which generally extend from intersection to intersection. All road segments are then componentised into formation, pavement, sub-pavement and seal, and kerb and channel. Council assumes that environmental factors such as soil type, climate and topography are consistent across each segment.

CRC is based on the component dimension multiplied by a unit price; the unit price being an estimate of labour and material inputs, services costs, and overhead allocations. Against each road component a standard design exists for the modern equivalent asset which details pavement depths, typical widths and other relevant component information to enable pricing, such as location and extent of works.

Unit prices are developed through an analysis of quantity surveyors' advices, actual project costs, internal estimators' workings and comparison with other local councils based on information provided by Council's engineering officers. Assets are further broken down by location category in order to reflect the increased cost of undertaking works in higher traffic areas. For this purpose, the revaluation calculations devised unit rate for each material type and location type more accurately capture the replacement costs of these works.

Bridges
Council does not have a large number of bridges and does not undertake replacement works frequently enough to provide reliable data for estimating actual costs.

Each bridge structure is aligned with a modern equivalent asset type which defines the replacement structure and associated bridge components.

Unit prices have been obtained from independent consultants, Pitt & Sherry, for construction works in rural areas against the modern equivalent asset specification. This "rural unit replacement rate" has then been multiplied by the deck area of each existing bridge located in rural areas to calculate the CRC of those bridges.

For bridges not located in rural areas, location factors provided by Pitt & Sherry have been applied to reflect the increased cost of undertaking works in higher traffic areas. For this purpose, two additional locations were identified – suburban and urban. For assets in suburban locations, a replacement rate equal to 1.2 times the rural unit replacement rate has been adopted. For assets in urban locations, a replacement rate equal to 1.5 times the rural unit replacement rate has been adopted.

In line with Pitt & Sherry's advice, unit replacement rates have been increased by a further 20 per cent, regardless of location, for bridges with abutments higher than three metres to reflect the additional complexity of construction.

Road and Bridges were last revalued at 30 June 2021, and this period have been indexed using the Producer Price Indexes, Australia (Index Number 3101 Road and Bridge Construction Australia).

The next full Roads and Bridges valuation is planned for 30 June 2026.

Other Property
Other Property includes fine art, sculptures, antique furniture and other valuables.

Two external valuers were engaged to value the majority of the assets. The variance between the two valuers was minimal and therefore an average of the valuations has been used to value these assets.

A specialist valuer was engaged where the attributes of the assets were outside of the expertise for the standard valuers and these assets were valued at the recommended rate.

Other Property was last revalued at 30 June 2021. This class is not indexed due to its specialist nature and indexing would not accurately represent its true fair market value.

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 9. Other financial information (continued)

The next full Other Property valuation is planned for 30 June 2026

(d) Unobservable inputs and sensitivities

There were no significant inter-relationships between unobservable inputs that materially affect fair values

(e) Changes in recurring level 3 fair value measurements

The changes in level 3 assets with recurring fair value measurements are detailed in Note 6.1 (Property, infrastructure, plant and equipment). Investment in water corporation, which is classified as level 3 has been separately disclosed in note 5.2.

During the year, there were no transfers between level 1, 2 or 3 measurements.

(f) Valuation processes

Council's current policy for the valuation of property, infrastructure, plant and equipment and its investment in TasWater (recurring fair value measurements) is set out in notes 6.1 and 5.1 respectively.

Non-recurring fair value measurements are made at the point of reclassification by a registered valuer.

(g) Assets and liabilities not measured at fair value but for which fair value is disclosed

Council has assets and liabilities which are not measured at fair value, but for which fair values are disclosed in other notes.

Council borrowings are measured at amortised cost with interest recognised in profit or loss when incurred. The fair value of loans disclosed in Note 9.10(d) is provided by each lender (level 2).

The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature (Level 2).

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 9. Other financial information (continued)

9.12 Events occurring after balance date

No other matters or circumstances have arisen since the end of the financial year which require disclosure in the financial report.

9.13 Prior period errors

Capital Work in Progress
In the current period, Council identified a number of projects in Capital Work in Progress that should have been written off in 2022-23.

Prior year comparatives have been restated as follows:
- Capital Work in Progress has reduced by $3.4 million
- Retained Earnings has reduced by $3.4 million

Rates & Charges
In the current period, Council identified Rates Equivalents revenue previously recorded as part of Rates and Charges revenue that should not have been recorded as revenue as the performance obligations had not been met. The Rates Equivalents comes with a commitment to undertake future capital work in consultation with the University of Tasmania.

Prior year comparatives have been restated as follows:
- Rates and Charges Revenue (Rates Equivalents)
  - 2021-22 effect - reduction of $152,000
  - 2022-23 effect - reduction of $335,000
  - 2023-24 effect - reduction of $383,000
- Contract Liabilities (Other Revenue Paid in Advance)
  - 2021-22 effect - increase of $152,000
  - 2022-23 effect - increase of $335,000
  - 2023-24 effect - reduction of $383,000

	Published financial statements $ '000	Correction of error $ '000	Restated actuals $ '000
2023-24			
Statement of Financial Position			
Non-current assets - Property, infrastructure, plant and equipment	3,159,619	(3,391)	3,156,228
Total assets	3,436,698	(3,391)	3,433,307
Current liabilities - Contract liabilities	8,869	871	9,740
Total liabilities	87,783	871	88,654
Accumulated surplus	1,138,287	(4,262)	1,134,025
Total equity	3,348,915	(4,262)	3,344,653
Statement of Comprehensive Income			
Recurrent income - Rates and charges	109,075	(383)	108,692
Net result for the year	10,484	(383)	10,101

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 10. Other matters

10.1 Related party transactions

Key management personnel comprises elected members and senior executives.

The Lord Mayor, Deputy Lord Mayor and Elected Members of the City of Hobart are entitled to receive allowances as provided under section 340A of the *Local Government Act 1993*. The quantum of the allowances was previously set in accordance with regulation 42 of the *Local Government (General) Regulations 2015*, however these regulations were repealed and replaced by regulation 49 of the *Local Government (General) Regulations 2025* on 24 June 2025. The allowances continue to be adjusted for inflation as at 1 November each year, however as part of the remake of the regulations there was a one off additional three per cent applied from 24 June 2025 to compensate for the lack of superannuation paid to elected members.

Employment terms and conditions for senior executives are contained in individual employment contracts and prescribe total remuneration, superannuation, annual and long service leave, vehicle and salary sacrifice provisions. Council also provides non-cash benefits and contributes to post employment superannuation plans on their behalf.

(i) Elected member remuneration

		Short term benefits			
	Allowances	Vehicles [1]	Total Compensation AASB 124	Expenses [2]	Total allowances and expenses section 72
Name	$	$	$	$	$
2025					
All elected members	**659**	**–**	**659**	**52**	**711**
Total	**659**	**–**	**659**	**52**	**711**
2024					
All elected members	611	–	611	37	648
Total	611	–	611	37	648

(1) Includes total cost of providing and maintaining vehicles provided for private use, including registration, insurance, fuel and other consumables, maintenance cost and parking (including notional value of parking provided at premises that are owned or leased and fringe benefits tax).

(2) Section 72(1)cb of the Local Government Act 1993 requires the disclosure of expenses paid to elected members, with the main expense types being telecommunications, fuel and travel expenses.

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Notes to the Financial Report
for the year ended 30 June 2025

Note 10. Other matters (continued)

(ii) Key management personnel remuneration

	Short term employee benefits			Post employment benefits			
Name	Salary [1] $	Vehicles [2] $	Other allowances and benefits [3] $	Super annuation [4] $	Termination benefits [5] $	Non- monetary benefits $	Total $
2025							
All Key management personnel	**1,806**	**190**	**–**	**233**	**–**	**164**	**2,393**
Subtotal	**1,806**	**190**	**–**	**233**	**–**	**164**	**2,393**
Total	**1,806**	**190**	**–**	**233**	**–**	**164**	**2,393**
2024							
All Key management personnel	1,730	156	–	259	135	93	2,373
Subtotal	1,730	156	–	259	135	93	2,373
Total	1,730	156	–	259	135	93	2,373

(1) Gross Salary includes all forms of consideration paid and payable for services rendered, compensated absences during the period and salary sacrifice amounts.

(2) Includes total cost of providing and maintaining vehicles provided for private use, including registration, insurance, fuel and other consumables, maintenance cost and parking (including notional value of parking provided at premises that are owned or leased and fringe benefits tax).

(3) Other allowances and benefits includes all other forms of employment allowances (excludes reimbursements such as travel, accommodation or meals), payments in lieu of leave, and any other compensation paid and payable.

(4) Superannuation means the contribution to the superannuation fund of the individual.

(5) Termination benefits include all forms of benefit paid or accrued as a consequence of termination.

(6) Non-monetary benefits include annual and long service leave movements and non-monetary benefits (such as housing, subsidised goods or services etc).

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 10. Other matters (continued)

Transactions with related parties

	2025 $ '000	2024 $ '000
Consulting Services	–	–
Related payables balances at year-end	–	–
Commitments to related parties at year-end	–	–
Related receivables balances at year-end	–	–
Related impairment provisions at year-end	–	–
Related bad and doubtful debts expense for the period	–	–

In accordance with section 84(2)(b) of the *Local Government Act 1993*, no interests have been notified to the Chief Executive Officer by any elected member in respect of any body or organisation with which the Council has major financial dealings.

Loans and guarantees to/from related parties

Council has not entered into any loans or guarantees with related parties.

Commitments to/from related parties

Commitments to/from related parties are disclosed in table above

Transactions with related parties that have not been disclosed

Most of the entities and people that are related parties of Council live and operate within the City. Therefore, on a regular basis, ordinary citizen transactions occur between Council and its related parties. Some examples are:

- Payment of rates and charges
- Dog registrations
- Attending Council events
- Use of Council facilities
- Parking fees and fines

Council has not included these types of transactions in its disclosure where they occur on the same terms and conditions as those available to the general public.

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Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 10. Other matters (continued)

10.2 Other significant accounting policies and pending accounting standards

(a) Taxation
Council is exempt from all forms of taxation except Fringe Benefits Tax, Payroll Tax and the Goods and Services Tax.

Goods and services tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(b) Impairment of non-financial assets
At each reporting date, Council reviews the carrying value of its assets to determine whether there is any indication that these assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the Statement of Other Comprehensive Income, unless the asset is carried at the revalued amount in which case, the impairment loss is recognised directly against the revaluation reserve in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset. For non-cash generating assets of Council such as roads, drains, public buildings and the like, value in use is represented by the deprival value of the asset approximated by its written down replacement cost.

(c) Allocation between current and non-current
In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next twelve months, being Council's operational cycle, or if Council does not have an unconditional right to defer settlement of a liability for at least 12 months after the reporting date.

(d) Financial guarantees
Financial guarantee contracts are recognised as a liability at the time the guarantee is issued. The liability is initially measured at fair value, and if there is material increase in the likelihood that the guarantee may have to be exercised, at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate. In the determination of fair value, consideration is given to factors including the probability of default by the guaranteed party and the likely loss to Council in the event of default.

(e) Contingent assets, contingent liabilities and commitments
Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Commitments are not recognised in the Statement of Financial Position. Commitments are disclosed at their nominal value exclusive of the GST payable.

(f) Budget
The estimated revenue and expense amounts in the Statement of Other Comprehensive Income represent original budget amounts and are not audited.

continued on next page ...

Hobart City Council

Notes to the Financial Report
for the year ended 30 June 2025

Note 10. Other matters (continued)

(g) Adoption of new and amended accounting standards
In the current year, Council has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. These include:

AASB 2020-1 ***Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current***

This Standard amends AASB 101 *Presentation of Financial Statements* to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.

AASB 2022-6 ***Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants***

This Standard amends AASB 101 *Presentation of Financial Statements* to improve the information an entity provides in its financial statements about long-term liabilities with covenants where the entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.

AASB 2022-10 ***Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities***

This Standard modifies AASB 13 *Fair Value Measurement* for application by not-for-profit public sector entities. It includes authoritative implementation guidance when fair valuing non-financial assets, not held primarily for their ability to generate cash inflows. This includes guidance and clarification regarding the determination of an assets highest and best use, the development and use of internal assumptions for unobservable inputs and allows for greater use of internal judgements when applying the cost approach in the measurement and determination of fair values.

(h) Pending Accounting Standards
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2025 reporting period. Council assesses the impact of these new standards. As at 30 June 2025 there were no new accounting standards or interpretations issued by the AASB which are applicable for the year ending 30 June 2025 that are expected to impact Council.

In September 2024 the Australian Accounting Standards Board (AASB) issued two Australian Sustainability Reporting Standards (ASRS). This followed Commonwealth legislation establishing Australia's sustainability reporting framework. Relevant entities will be required to undertake mandatory reporting of climate-related disclosures in future financial years. Public sector application issues remain under consideration and Council will continue to monitor developments and potential implications for future financial years.

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Notes to the Financial Report
for the year ended 30 June 2025

Note 10. Other matters (continued)

	Off-Street Parking 2025 $ '000	Off-Street Parking 2024 $ '000	**On-Street Parking 2025 $ '000**	On-Street Parking 2024 $ '000	**Doone Kennedy Hobart Aquatic Centre 2025 $ '000**	Doone Kennedy Hobart Aquatic Centre 2024 $ '000	**Tasmanian Travel and Information Centre 2025 $ '000**	Tasmanian Travel and Information Centre 2024 $ '000	**Waste 2025 $ '000**	Waste 2024 $ '000	**Salamanca Market 2025 $ '000**	Salamanca Market 2024 $ '000
10.3 Significant business activities												
The operating capital and competitive neutrality costs of the Council's significant business activities:												
Revenue												
Rates	**–**	–	**–**	–	**–**	–	**–**	–	**9,616**	8,590	**–**	–
User Fees and Charges	**14,893**	13,914	**7,917**	7,929	**6,696**	5,897	**889**	905	**5,995**	3,612	**95**	87
Grants and Donations	**–**	–	**–**	–	**9**	28	**–**	–	**–**	–	**13**	16
Fines	**–**	–	**5,350**	6,607	**–**	–	**–**	–	**–**	–	**–**	–
Rental Income	**–**	–	**–**	–	**11**	24	**–**	–	**160**	98	**1,559**	1,458
Other Income	**–**	–	**–**	–	**298**	302	**2**	12	**–**	–	**4**	1
Tasmanian Government Grant	**–**	–	**–**	–	**–**	–	**131**	150	**–**	–	**–**	–
Total revenue	**14,893**	13,914	**13,267**	14,536	**7,014**	6,251	**1,022**	1,067	**15,771**	12,300	**1,671**	1,562
Expenditure												
Direct												
Employee costs	**774**	695	**3,298**	2,690	**4,679**	4,476	**914**	861	**3,257**	3,107	**661**	612
Energy Costs	**214**	257	**–**	–	**666**	647	**12**	12	**22**	13	**9**	2
Materials and Contracts	**1,401**	1,776	**1,481**	1,437	**2,315**	2,037	**295**	299	**8,706**	5,885	**401**	364
Finance Lease Interest	**265**	285	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Land Tax	**601**	597	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Administrative Overheads	**813**	813	**703**	703	**–**	–	**–**	–	**611**	611	**625**	625
Bad debts	**–**	–	**(4)**	507	**–**	–	**–**	–	**–**	–	**–**	–
Insurance	**–**	–	**–**	–	**42**	42	**–**	–	**–**	–	**–**	–
Interest	**–**	–	**–**	–	**–**	–	**–**	–	**174**	141	**–**	–
Total expenses	**4,068**	4,423	**5,478**	5,337	**7,702**	7,202	**1,221**	1,172	**12,770**	9,757	**1,696**	1,603

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 10. Other matters (continued)

	Off-Street Parking 2025 $ '000	Off-Street Parking 2024 $ '000	**On-Street Parking 2025 $ '000**	On-Street Parking 2024 $ '000	**Doone Kennedy Hobart Aquatic Centre 2025 $ '000**	Doone Kennedy Hobart Aquatic Centre 2024 $ '000	**Tasmanian Travel and Information Centre 2025 $ '000**	Tasmanian Travel and Information Centre 2024 $ '000	**Waste 2025 $ '000**	Waste 2024 $ '000	**Salamanca Market 2025 $ '000**	Salamanca Market 2024 $ '000
Notional cost of free services received												
Capital costs												
Depreciation and Amortisation	**1,747**	1,613	**437**	437	**898**	770	**8**	9	**567**	559	**8**	8
Profit/(Loss) on Sale of Plant and Equipment	**–**	105	**–**	(28)	**5**	(4)	**–**	–	**1**	334	**–**	–
Total capital costs	**1,747**	1,718	**437**	409	**903**	766	**8**	9	**568**	893	**8**	8
Calculated Surplus/(Deficit)	***9,078***	*7,773*	***7,352***	*8,790*	***(1,591)***	*(1,717)*	***(207)***	*(114)*	***2,433***	*1,650*	***(33)***	*(49)*
Competitive neutrality costs												
Income Tax	**8,690**	8,722	**1,838**	2,198	**–**	–	**–**	–	**601**	408	**–**	–
Opportunity Cost of Capital	**2,081**	1,776	**–**	–	**1,415**	1,468	**11**	12	**1,022**	924	**16**	17
Council Rates	**756**	670	**56**	102	**248**	206	**10**	10	**28**	19	**313**	298
Total	**11,527**	11,168	**1,894**	2,300	**1,663**	1,674	**21**	22	**1,651**	1,351	**329**	315

The Council has identified Off-Street Parking, On-Street Parking, Doone Kennedy Hobart Aquatic Centre (DKHAC), Tasmanian Travel and Information Centre (TTIC), Waste and Salamanca Market as commercial-like undertakings. Details of each of these are set out above.

Competitive neutrality costs are costs which would have applied to the activity had it not been conducted under the umbrella of government. Therefore, from the local government perspective, such "costs" are notional only and are disclosed for information.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 10. Other matters (continued)

10.4 Management indicators

	Benchmark	2025	2024	2023	2022
(a) Underlying surplus or deficit					
Net result for the year		**20,365**	10,101	16,848	20,540
Capital Grants		**(5,165)**	(3,909)	(5,239)	(4,289)
Capital contributions		**–**	(80)	(4,343)	(8,744)
Redundancy Payments		**294**	698	443	381
Additional costs as a result of 2018 significant weather event		**–**	–	–	44
Natural Disaster Relief and Recovery Arrangements funding received as a result of 2018 significant weather event		**–**	–	–	(1,885)
Additional costs as a result of COVID-19		**–**	–	–	309
Gains from one-off disposal of surplus land & buildings		**(2,200)**	–	127	–
Grants received in advance - prior year		**2,781**	3,351	2,200	1,480
Grants received in advance - current year		**(1,708)**	(2,781)	(3,351)	(2,200)
Underlying surplus/deficit		**14,367**	7,380	6,685	5,636

The intent of the underlying result is to show the outcome of a Council's normal or usual day to day operations.

Underlying revenue excludes all capital income (grants received specifically for assets and physical resources received free of charge) and non-recurring income, and includes adjustments for revenue received in advance.

This indicator measures the extent to which expenses are covered by revenues. The benchmark was achieved in the current period, mainly due to lower depreciation and employee costs.

	Benchmark	2025	2024	2023	2022
(b) Underlying surplus ratio					
Underlying surplus or deficit		**14,367**	7,380	6,685	5,636
Recurrent income*		**182,822**	169,094	156,994	146,995
Underlying surplus ratio %	0% -2%	**7.86%**	4.36%	4.30%	3.80%

* Recurrent income excludes all capital income (grants received specifically for assets and physical resources received free of charge) and non-recurring income, and includes adjustments for revenue received in advance.

This indicator also measures the extent to which expenses are covered by revenues, by comparing the underlying surplus (or deficit) to total revenue. Again, the benchmark was achieved in the current period.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 10. Other matters (continued)

	Benchmark	2025	2024	2023	2022
(c) Net financial liabilities					
Current cash and cash equivalents		**18,946**	11,740	18,993	37,033
Current trade and other receivables		**9,187**	8,399	7,627	7,305
Current other financial assets		**72,000**	61,000	44,000	28,300
Liquid assets		**100,133**	81,139	70,620	72,638
less:					
Total liabilities		**(80,938)**	(88,654)	(102,024)	(107,766)
Net financial liabilities		**19,195**	(7,515)	(31,404)	(35,128)

This indicator measures Council's net indebtedness (the extent to which Council's liabilities could be met if all liabilities fell due at once). The above result is within the benchmark range (being 50 per cent of underlying revenue).

	Benchmark	2025	2024	2023	2022
(d) Net financial liabilities ratio					
Net financial liabilities		**19,195**	(7,515)	(31,404)	(35,128)
Recurrent income		**182,822**	169,094	156,994	146,995
Net financial liabilities ratio %	< -50%	**10.50%**	(4.44)%	(20.00)%	(23.90)%

This indicator also measures Council's net indebtedness by comparing net financial liabilities to total revenue. Again, the result is within the benchmark range .

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 10. Other matters (continued)

	Benchmark	2025	2024	2023	2022
(e) Asset consumption ratio					
An asset consumption ratio has been calculated in relation to each asset class required to be included in the long-term strategic asset management plan of Council.					
Buildings					
Fair value (Carrying amount)		**201,228**	201,952	195,968	174,355
Current replacement cost (Gross)		**350,548**	347,463	332,919	283,549
Asset consumption ratio %	40% - 80%	**57.40%**	58.12%	58.90%	61.50%
Pathways and Cycleways					
Fair value (Carrying amount)		**88,824**	91,239	88,750	106,396
Current replacement cost (Gross)		**256,809**	251,205	239,583	219,521
Asset consumption ratio %	40% - 80%	**34.59%**	36.32%	37.00%	48.50%
Stormwater					
Fair value (Carrying amount)		**214,052**	213,850	206,575	198,527
Current replacement cost (Gross)		**406,400**	399,763	381,744	348,009
Asset consumption ratio %	40% - 80%	**52.67%**	53.49%	54.10%	57.10%
Plant and Equipment					
Fair value (Carrying amount)		**18,193**	16,703	18,338	16,028
Current replacement cost (Gross)		**49,856**	49,990	50,572	45,529
Asset consumption ratio %	40% - 80%	**36.49%**	33.41%	36.30%	35.20%
Land Improvements					
Fair value (Carrying amount)		**129,965**	133,037	129,717	122,193
Current replacement cost (Gross)		**283,273**	279,340	264,704	237,883
Asset consumption ratio %	40% - 80%	**45.88%**	47.63%	49.00%	51.40%
Roads and Bridges					
Fair value (Carrying amount)		**239,787**	240,478	233,094	286,750
Current replacement cost (Gross)		**544,897**	533,126	510,676	466,356
Asset consumption ratio %	40% - 80%	**44.01%**	45.11%	45.60%	61.50%

This indicator measures the service potential remaining in Council's existing assets. Results are within the benchmark range, except for plant and equipment and pathways and cycleways, which are slightly below benchmark. Going forward results are expected to remain around current levels.

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Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 10. Other matters (continued)

	Benchmark	2025	2024	2023	2022
(f) Asset renewal funding ratio					
An asset renewal funding ratio has been calculated in relation to each asset class required to be included in the long-term strategic asset management plan of Council.					
Projected capital funding outlays**		**336,038**	336,038	276,631	299,147
Projected capital expenditure funding***		**298,125**	298,125	298,125	298,950
Asset renewal funding ratio %	100%	**112.72%**	112.72%	92.80%	100.10%

** Current value of projected capital funding outlays for an asset identified in Council's long-term financial plan.
***Value of projected capital expenditure funding for an asset identified in Council's long-term strategic asset management plan.

This indicator measures Council's capacity to fund asset renewal requirements by comparing planned funding for asset renewal (as per Council's Long Term Financial Management Plan) with required funding for asset renewal (as per Council's Asset Management Plans).

The above result indicates that Council is above the level required to fund all required asset renewals over the next 10 year period.

	Benchmark	2025	2024	2023	2022
(g) Asset sustainability ratio					
Capex on replacement/renewal of existing assets		**25,723**	16,048	29,173	18,798
Annual depreciation expense		**30,133**	29,239	27,574	33,003
Asset sustainability ratio %	100%	**85.36%**	54.89%	105.80%	57.00%

This indicator measures the extent to which assets are being renewed as they wear out. For a relatively young asset portfolio the benchmark may be quite low, whereas for an older asset portfolio the benchmark may be greater than 100 per cent. The above result indicates that Council is below its benchmark in terms of sufficiently reinvesting in its assets for this period.

	Captial renewal expenditure $ '000	Capital new /upgrade expenditure $ '000	Total Capital Expenditure $ '000
2025			
Other	**25,723**	**2,123**	**27,846**
Total	**25,723**	**2,123**	**27,846**
2024			
Other	11,848	3,810	15,658
Total	11,848	3,810	15,658

Hobart City Council

Notes to the Financial Report

for the year ended 30 June 2025

Note 11. Major Development Assistance Policy Commitments

The Council has entered into a Development Assistance Deed for the The Myer Development Project.

Conditional agreements to provide the following benefits to the developer (E. Kalis Properties Pty Ltd) to assist with the redevelopment of the Myer site, located at 98 110 Liverpool Street and 55 Murray Street, Hobart, namely:

1. Consistent with Council's Major Development Assistance Policy:
a. A cap on rates for a defined period based on the value of the property as at 18 January 2012, limited to CPI increases, and

2. The air rights over the relevant portion of the Hobart Rivulet for a nominal consideration.

The value of the benefit provided in the current period is $908,114 (prior year: $778,083). It is not possible to reliably estimate the value of future assistance.

HOBART CITY COUNCIL

GENERAL PURPOSE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2025

CERTIFICATION BY CHIEF EXECUTIVE OFFICER

The financial report presents fairly the financial position of the Hobart City Council as at 30 June 2025 and the results of its operations and cash flows for the year then ended, in accordance with the *Local Government Act 1993* (as amended), Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board.

Signed at Hobart this 15th day of October 2025

(Michael Stretton)
Chief Executive Officer

Audit Tasmania

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Postal Address GPO Box 851, Hobart, Tasmania, 7001
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16 October 2025

Michael Stretton
Chief Executive Officer
Hobart City Council

The audit of the financial report for Hobart City Council (the Council) has been completed in accordance with the agreed financial audit strategy. I have issued my audit report on the financial report, a copy of which is enclosed.

I have prepared this letter solely for the use of the Council. As you know, this letter forms part of a continuing dialogue between the Chief Executive Officer and the Auditor-General and, therefore, it is not intended to include every matter, whether large or small, that has come to my attention. For this reason, I believe that it would be inappropriate for this letter to be made available to third parties and, if such a third party were to obtain a copy without my prior written consent, I would not accept any responsibility for any reliance that they might place on it.

The audit was completed with no significant findings.

You will appreciate that my normal audit procedures are designed primarily to enable me to form an opinion on the financial report as a whole and therefore do not necessarily bring to light at each audit all the weaknesses in internal control or accounting practice which a special investigation might do.

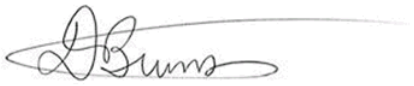
Please will you forward to me a copy of the final draft of the Council's annual report for review by my staff prior to its publication. This review will be conducted in accordance with Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Report* to identify any material inconsistencies between the financial report and other information disclosed in the annual report.

Appreciation is expressed for the assistance and co-operation provided to my staff during the course of the audit.

Please note that a copy of this letter together with the auditor's report will be provided to the Minister for Local Government, in accordance with section 19(2) of the *Audit Act 2008*.

If you have any queries regarding the audit or any other matters, please contact myself or Hanna Jones on (03) 6173 0900.

Yours sincerely



Derek Burns

Encl.

Copy for:
Anna Reynolds, The Rt Hon Lord Mayor

Michelle Wickham, Chief Financial Officer

Michael Greatbatch, Financial Operations Manager

Wayne Davy, Chairman, Risk and Audit Panel

Michael Reynolds, Director Corporate Services Network

Alison Flakemore, Senior Partner, Crowe

Audit Tasmania

Independent Auditor's Report

To the Councillors of Hobart City Council

Report on the Audit of the Financial Report

Opinion

I have audited the financial report of Hobart City Council (Council), which comprises the statement of financial position as at 30 June 2025 and statements of comprehensive income, changes in equity and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, other explanatory notes and the statement of certification signed by the Chief Executive Officer.

In my opinion, the accompanying financial report:

(a) presents fairly, in all material respects, Council's financial position as at 30 June 2025 and its financial performance and its cash flows for the year then ended

(b) is in accordance with the *Local Government Act 1993* and Australian Accounting Standards.

Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of Council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

The *Audit Act 2008* further promotes the independence of the Auditor-General. The Auditor-General is the auditor of all Tasmanian public sector entities and can only be removed by Parliament. The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

My audit responsibility does not extend to the budget figures included in the financial report, the asset renewal funding ratio disclosed in note 10.4(f), nor the Significant Business Activities disclosed in note 10.3 to the financial report and accordingly, I express no opinion on them.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Why this matter is considered to be one of the most significant matters in the audit	Audit procedures to address the matter included
Classification and recognition of capital work in progress *Refer to note 6.1, 9.13*	
Works in progress totalled $71.69 million as at 30 June 2025. Works in the 2024-25 financial year were spread across a number of significant programs to upgrade and maintain infrastructure and property assets. Capital projects can contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental. Due to historic audit observations related to asset management, this had elevated the risk related to classification and recognition of capital work in progress.	• Tested on a sample basis, additions to work in progress including the allocation of costs between capital and operating expenditure. • Tested, on a sample basis, the approval of completed assets transferred out of work in progress. • Reviewed management's appraisal of work in progress and in particular assets remaining in work in progress at year end, including management assessment of impairment indicators • Confirmed with management and verified the controls in place to ensure assets are commissioned on a timely basis.

Responsibilities of the Chief Executive Officer for the Financial Report

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Local Government Act 1993* and for such internal control as determined necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive Officer is responsible for assessing Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Council is to be dissolved by an Act of Parliament or the Councillors intend to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

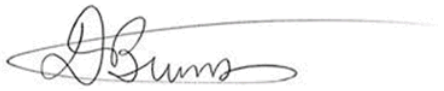
As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer.
- Conclude on the appropriateness of the Chief Executive Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Executive Officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Chief Executive Officer, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare

circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Derek Burns
Assistant Auditor-General
Delegate of the Auditor-General

16 October 2025
Hobart

Section 28ZK (7) of the *Local Government Act 1993* requires that any person who receives a determination report must keep the determination report confidential until the report is included within an item on the agenda for a meeting of the relevant council. Failure to do so may result in a fine of up to 50 penalty units.

Local Government Act 1993

CODE OF CONDUCT PANEL DETERMINATION REPORT

HOBART CITY COUNCIL CODE OF CONDUCT

C34631 - Complaint brought by Councillor (Cr) Mike Dutta against Cr Louise Elliot

Code of Conduct Panel

- David Sales (Chairperson)
- Roseanne Heyward (Local Government Member)
- Anthony Mihal (Legal Member)

Date of Determination: 19 September 2025

Content Manager Reference: C34631

Summary of the complaint

Cr Mike Dutta submitted a code of conduct complaint to the General Manager of the Hobart City Council on 3 May 2024 (the Complaint).

The Complainant alleges that Cr Louise Elliot published on X (formerly Twitter) on 26 or 27 November 2023 and on Facebook on 27 November 2023 the following post: -

'Flying the Palestinian flag was on the agenda for the Hobart City Council, until a last minute switch to pointless letter writing. How on earth anyone can propose flying the flag of a country that is governed by terrorists is beyond me, especially when around 75% of their population support the horrific massacre of hundreds of people. I truly worry about the mind virus that brings these concepts into the Council Chamber. It's sickening. I will not in any way – however lame or symbolic – support terrorism, genocide and repulsive brutality.'

which breached the following parts of the Hobart City Council Code of Conduct adopted on 20 February 2023 (the Code).

PART 5 - USE OF INFORMATION

…

2. *An elected member must only release Council information in accordance with established Council policies and procedures and in compliance with relevant legislation*

PART 7 - RELATIONSHIPS WITH COMMUNITY, COUNCILLORS AND COUNCIL EMPLOYEES

7.1 A councillor –

…

(b) must not cause any reasonable person offence or embarrassment; and

PART 8 - REPRESENTATION

1. When giving information to the community, an elected member must accurately represent the policies and decisions of the Council.

2. An elected member must not knowingly misrepresent information that they have obtained in the course of their duties.

…

5. An elected member's personal views must not be expressed publicly in such a way as to undermine the decisions of the Council or bring the Council into disrepute.

6. An elected member must show respect when expressing personal views publicly.

7. The personal conduct of an elected member must not reflect, or have the potential to reflect, adversely on the reputation of the Council.

Assessment of complaint

The Chairperson assessed the complaint in accordance with section 28ZA of the *Local Government Act 1993* (the Act). The Chairperson considered whether it should be referred to another person or authority under section 28ZC(1) of the Act and determined that it did not require referral as it did not disclose that an offence may have been committed and it was not more appropriately dealt with by another person or authority.

The Chairperson did not consider that any of the matters in section 28ZB(1) of the Act applied to the complaint. That section is as follows:

(1) The chairperson of the Code of Conduct Panel, on an initial assessment, may dismiss the code of conduct complaint, or part of it, if he or she considers that –

(a) the complaint or part is frivolous, vexatious or trivial; or

(ab) the complainant has not made a reasonable effort to resolve the issue that is the subject of the complaint; or

(b) the complaint or part does not substantially relate to a contravention of the code of conduct of the relevant council; or

(c) the complainant has made the complaint or part in contravention of –

(i) a determination of the chairperson made under section 28ZB(2) of the Act; or

(ii) a determination of the Code of Conduct Panel made under section 28ZI(3) of the Act.

Having done so, he determined that pursuant to section 28ZA(1) of the Act, the complaint should be investigated and determined by the Code of Conduct Panel.

The Chairperson made this determination for the following reasons:

- The complaint substantially relates to alleged contraventions of the Code.

  If the allegations are proven, they are capable of constituting a breach of Parts 5(2), 7(1)(b) and 8(1), (2), (5), (6) & (7) of the Code.

- The complaint is not frivolous, vexatious or trivial and appears to relate to matters of substance under the Code and does not appear to be trifling, insignificant or a misuse of the Panel's resources.

- He considered that a reasonable effort had been made to resolve the issue that is the subject of the complaint being that Cr Dutta requested removal of and an apology for the Facebook post on 27 November 2023 and the respondent indicated that she would not accommodate his request.

Enquiries were made of the Code of Conduct Panel Executive Officer and the Chairperson was advised that the complaint (or part of the complaint) has not been made in contravention of a determination of the chairperson of a Code of Conduct Panel under section 28ZB(2) of the Act or a determination of the Code of Conduct Panel under section 28ZI(3) of the Act.

The Investigation

The complaint as made did not identify the dates on which the relevant social media publications were made. The Respondent wrote to the panel before our investigation commenced seeking clarification. Cr Dutta made a further statutory declaration setting out the relevant dates of each post, which we took to be an amendment to the complaint made in accordance with Section 28X(1) of the Act.

The Respondent then provided the Panel with a written response to the complaint, and we commenced our investigation.

The subject matter of the social media publications relevant to the complaint was the ongoing conflict in Gaza. We did not consider it necessary to determine whether the posts were factually correct, and in particular whether Palestine is a country that is governed by terrorists and that seventy-five percent of its population support the horrific massacre of hundreds of people. Cr Elliot's response to the complaint included material supporting the factuality of her position but we did not consider that material relevant to determining whether Cr Elliot breached the Code by publishing social media posts with that content.

Cr Elliot did not dispute that she published the relevant posts. That being the case, it fell on us to consider the words themselves to determine whether publishing them amounted to a breach of any of the relevant parts of the Code. We did not consider any need to engage in analysis of the situation in the middle east, suffice to say that many in the community hold deeply held and differing views.

Cr Elliot submitted that other than being factually correct, her posts included her 'fair and valid political opinion' and that the post could not breach the code because she was protected by the implied freedom of political communication conferred by the Australian Constitution. She referred us to the decision of Magistrate Brown in *Howard v Code of Conduct Panel* [2019] TASMC 6, who held that the Code should be "read down so as not to impinge on that freedom unduly"[1].

In September 2024, the Panel wrote to both parties seeking their views on whether we should exercise the discretion under section 28ZG of the Act to investigate the complaint without a hearing.

On 13 November 2024, the Supreme Court of Tasmania delivered its judgment in *Howard v Code of Conduct Panel* [2024] TASSC 64 per Blow CJ. The Court held that the Panel was not required to take the implied freedom of political communication into account when determining complaints under the Act[2]. We referred the parties to the decision and invited further submissions.

Submissions were received from both parties. Nothing in those submissions dissuaded us from the view that *Howard v Code of Conduct Panel* [2019] TASMC 6 is not a proper statement of the law and that we were not required to take the implied freedom of political communication into account as stated by Blow CJ.

Again, on 18 March 2025, the Panel wrote to both parties seeking their views on whether a hearing was necessary. The Complainant indicated that he did not consider that a hearing was necessary, however the Respondent requested that a hearing be held.

The Panel considered these requests and in accordance with s28ZG(2)(a) and (b) of the Act, determined that a hearing not be held because there were no significant areas of factual dispute, and therefore the inquiry was limited to considering the provisions of the Code and characterising the social media publications.

In response to this advice, the Panel received correspondence from the Respondent expressing her dismay that there would not be a hearing and indicating that she had important additional evidence she wished to submit but it was of a nature that she would only be comfortable in submitting orally.

The Panel considered the Respondent's submission and in the interests of providing natural justice to Cr Elliot and in accordance with s28ZG(4) of the Act determined that it would hold a hearing. S28ZH of the Act provides that the investigating Panel may regulate the procedure of its hearings. In view of the fact that the Panel considered that it had sufficient evidence before it to determine the matter, the Panel decided that the hearing would be restricted to the Respondent providing the additional evidence and allowing the Complainant the opportunity to question the Respondent and make submissions as to anything that arose in relation to any new evidence, but that the parties could otherwise rely on the extensive written submissions we had already received from them

The hearing took place on 27 June 2025. The Respondent briefly presented the additional evidence and the Complainant was given the opportunity to question the Respondent and make

[1] *Howard v Code of Conduct Panel* [2019] TASMC 6 at [53]
[2] *Howard v Code of Conduct Panel* [2024] TASSC 64 at [37]

submissions. The Respondent indicated that the evidence she gave was very personal in nature and she did not want it to be made public. The evidence was about her personal background, family and politics. We did not consider any of it relevant to our consideration of the complaint.

During the course of the hearing the Panel advised that it had decided in the interests of procedural fairness and in view of the protracted nature of the investigation of this Complaint, to give both parties to this Complaint the opportunity to make a final submission prior to it determining the Complaint.

This was conveyed to the parties on 30 June 2025 together with an invitation to make submissions as to sanction if any of the alleged breaches were upheld.

A final submission was received from Cr Elliot on 2 July 2025 in which she reiterated her position and indicated that she felt she had not breached the Code and no sanction was warranted.

A final submission was received from Cr Dutta on 14 July 2025 in which he also reiterated his position. He also indicated that if it was found that Cr Elliot had breached the Code a sanction of a public apology together with a suitable training course would be appropriate.

The Panel then proceeded to make a determination. The Panel had before it the following materials which we considered in making our determination:

- Hobart City Council Councillor Code of Conduct adopted 20 February 2023;
- Code of Conduct Complaint (C34631) by Cr Mike Dutta against Cr Louise Elliot dated 3 May 2024;
- Email from Cr Dutta clarifying some of the information which was included in the initial complaint dated 29 August 2024;
- Response from Cr Elliot to Cr Dutta's complaint dated 18 September 2024;
- Submission of Cr Elliot in response to the Panel's letter of 9 December 2024, dated 18 January 2025; and
- Submission of Cr Dutta in response to the Panel's letter of 9 December 2024, dated 28 February 2025.
- Final submission received from Cr Elliot on 2 July 2025
- Final submission received from Cr Dutta on 14 July 2025.

Determination

Pursuant to section 28ZI(c) of the Act the Panel determines the Complaint by upholding that part of the Complaint that relates to Part 7(1)(b) and Part 8(6) and (7) of the Code, and dismissing the remainder of the Complaint, that is that part of the Complaint that relates to Part 5(2), and Part 8(1), (2) and (5) of the Code.

Reasons for the Determination

PART 5 - USE OF INFORMATION

……..

2. An elected member must only release Council information in accordance with established Council policies and procedures and in compliance with relevant legislation

The allegation is that Cr Elliot breached the code because the relevant social media posts were a "release" of council information, being that the Council did not pass a resolution to fly the Palestinian flag which was on the agenda for the closed part of its meeting on 27 November 2023, other than in accordance with relevant policies, procedures and legislation.

It is alleged that Cr Elliot's posts amounted to a disclosure of information contrary to Section 338A of the Act, which is as follows:

> **338A. Disclosure of information**
>
> (1) Except as required, or allowed, by this Act, another Act or any other law, a councillor must not disclose information –
>
> (a) seen or heard by the councillor at a meeting or part of a meeting of a council or council committee that is closed to the public that is not authorised by the council or council committee to be disclosed; or
>
> (b) that is, on the condition that it be kept confidential, given to the councillor by the mayor, deputy mayor, chairperson of a meeting of the council or council committee or the general manager.

It was not at issue that Cr Elliot was not present at the relevant council meeting. That means she did not disclose anything she saw or heard at that meeting contrary to section 388A (1)(a) of the Act.

There was no evidence before us that Cr Elliot was given the information about the motion not passing on the condition it be kept confidential such that we could find it was disclosed contrary to section 388A(1)(b) of the Act.

The evidence before us was that there was a publicly available summary of agenda items for the closed meeting which indicated that the flying of the Palestine flag would be discussed and therefore was public knowledge before the Meeting. Cr Elliot, by a process of deduction was able to know that the motion did not pass. Accordingly, she did not 'release' any council information contrary to policy, procedure or law and this allegation of the complainant is not upheld.

The Panel dismisses the alleged breach of Part 5 (2) of the Code.

PART 7 - RELATIONSHIPS WITH COMMUNITY, COUNCILLORS AND COUNCIL EMPLOYEES

7.1 A councillor –

…..

(b) must not cause any reasonable person offence or embarrassment; and…

We had evidence before us that at least two people were offended by Cr Elliot's social media posts. The first is Cr Dutta who said he and several of his fellow councillors who supported motions before the Council concerning the Gaza war were offended by Cr Elliot's reference to them having a *"mind virus"*..

In her response to the complaint, Cr Elliot made the following submissions:

> *My reference to 'mind virus' is in relation to **woke culture** as a broad and general political ideology. It is not a literal phrase – a metaphor perhaps – and all reasonable people know that. This was NOT a reference to any individual. It was a reference to wokeism. There are countless examples of this phrasing used in this way.*

To the extent that we are able to understand that submission, having not before come across the term "mind virus" until being introduced to it by Cr Elliot and not knowing precisely what is meant by "woke culture", we reject it. Cr Elliot's intention is to suggest that a reasonable person could not be offended by someone saying that they have a "mind virus" for taking a particular view about an issue.

We find that to suggest that someone has been infected by a transmissible mental illness because they hold particular political beliefs is inherently offensive. The metaphor itself is offensive and we accept that Cr Elliot caused offence and embarrassment to Cr Dutta by its use in her social media posts. It was reasonable for Cr Dutta to be offended, and given the publications were on public forums, reasonable for Cr Dutta to be embarrassed by them. It was very discourteous of Cr Elliot to refer to her fellow councillors in that manner.

It is to that extent that we find Cr Elliot has breached this part of the Code and for that reason this allegation of complaint is upheld.

We had evidence that Cr Elliot's social media post also caused offence to Dr Adel Yousif, a senior lecturer at the University of Tasmania, in the form of a letter to Cr Dutta in which Dr Yousif wrote the following:

> *As a member of the Palestinian community, I am extremely offended, distraught, and indeed outraged that Cr Elliot would suggest that our country of origin is governed by terrorist and that three quarters of the population support 'horrific massacre of hundreds of people'. These sorts of wild and unfounded allegations are dehumanising, make it very difficult to promote acceptance and are a source of acute embarrassment for members of our community who already struggle with being accepted into our local societies. Being maligned and targeted as 'brutal terrorist' within our community only causes more division and distress for us as we seek to be part of Australian society.*

We accept that Dr Yousif was genuinely offended by the assertions in Cr Elliot's social media posts that Palestine is "*a country governed by terrorists"* and that *"around 75% of their population support the horrific massacre of hundreds of people".* Cr Elliot attempted to provide evidence to convince us that her assertions were true and suggested that for that reason, it was not reasonable for Dr Yousif to be offended by them.

It is beyond our capacity to undertake an investigation into the complexities of Israel and the Palestinian people. We are of the view that it is unnecessary for us to do so to determine the complaint. Clearly Cr Elliot and others genuinely believe in the truth of the assertions.

The relevant part of the Code is poorly drafted. If we were to take it literally, we would be required to undertake an inquiry as to whether or not Dr Yousif is a reasonable person. That would not be sensible. An inquiry into whether or not it was reasonable for Dr Yousif to be offended is also not a useful one in this instance. As a member of the Palestinian community, it is perfectly understandable and reasonable for the comments to have caused great hurt and offense to him and his fellow community members for whose feelings no regard was given in the writing of the social media posts.

What the provision of the Code properly constructed calls for is for us to put an objective bystander, the "reasonable person" in Dr Yousef's shoes to determine whether offence would be caused. The context for Cr Elliot's posts is a polarising and highly controversial political topic in which opposing views are genuinely and passionately held.

In that context, we cannot be satisfied that the relevant assertions were objectively offensive and find that to the extent the complaint relates to offence caused to Dr Yousef, it is not upheld.

The Panel upholds the alleged breach of Part 7(1)(b) of the Code in so far as it relates to inferring that fellow Councillors have a "*mind virus'*

PART 8 - REPRESENTATION

1 *When giving information to the community, an elected member must accurately represent the policies and decisions of the Council.*

Cr Dutta says that Cr Elliot breached this part of the Code by publishing the following words in her social media posts:

> "*flying the Palestinian flag was on the Agenda for the Hobart City Council, until a last-minute switch to pointless letter writing"*.

The gravamen of the complaint is that the above misrepresents the Council's meeting agenda and the timing of the decision. It is not alleged that a policy or decision itself was not accurately represented, which is required if this matter of complaint could be upheld. It cannot be.

The complainant appears to submit that Cr Elliot misrepresented a decision of council by saying that a motion which passed at the relevant council meeting for the mayor to write a letter to the prime minister was "lame and symbolic". That is a characterisation of the effect of that decision – a characterisation with which Cr Dutta disagrees and would say is unfair – but it is not a misrepresentation of the decision itself. For that reason, we find this matter of complaint cannot be upheld.

The Panel dismisses the alleged breach of Part 8(1) of the Code.

2 *An elected member must not knowingly misrepresent information that they have obtained in the course of their duties.*

We have simply not been able to identify any information that Cr Elliot has obtained in the course of her duties as councillor that was misrepresented in her social media publications.

The Panel dismisses the alleged breach of Part 8(2) of the Code.

5 *An elected member's personal views must not be expressed publicly in such a way as to undermine the decisions of the Council or bring the Council into disrepute.*

The Complainant says that Cr Elliot undermined the decision of the Council when she wrote that a motion which passed at the relevant council meeting for the mayor to write a letter to the prime minister was "*lame and symbolic*" and that it in some way supported "*terrorism, genocide and repulsive brutality*". That is a characterisation of the effect of that decision – a characterisation with which Cr Dutta disagrees and would say is unfair.

Cr Dutta submitted as follows:

> *"While individual opinions are valued, it's crucial for Council members to uphold unity and support the decisions made collectively to ensure the Council's credibility and effectiveness in addressing important issues."*

We reject that submission. The Code allows a councillor to publicly disagree with a decision of council and to say why they disagree. Here, Cr Elliot has expressed emphatic disagreement. We are unable to find that she did so to the extent of undermining the decision and cannot therefore find that this matter of complaint is upheld.

The Panel dismisses the alleged breach of Part 8(5) of the Code.

6 *An elected member must show respect when expressing personal views publicly.*

Cr Elliot's conduct was to publish a statement that she was "*sickened*" by those with a "*mind virus*" who brought the matter of flying the Palestine flag into the Council chamber and went on to infer that those who supported the flying of the flag *"supported terrorism, genocide and repulsive brutality"*. We find that in doing so, Cr Elliot showed a lack of respect for those who have a different view to her. Cr Elliot posted offensive and derogatory comments on social media about her fellow councillors, showing a lack of respect for her fellow councillors.

The Panel upholds the alleged breach of Part 8(6) of the Code.

7 *The personal conduct of an elected member must not reflect, or have the potential to reflect, adversely on the reputation of the Council.*

The manner in which Cr Elliot describes her fellow elected members as having a "*mind virus*" can reasonably be construed as suggesting they are suffering from a form of mental illness or condition which could lead to a perception that those colleagues do not have the capacity to function capably or bring rational ideas to Council for debate. Cr Elliot's words can and will be taken at face value. Further, Cr Elliot's comments could be taken to suggest that members of Council were supporting terrorism and genocide and were attempting to involve Council in such support.

Although no evidence has been introduced to support the claim that Council has suffered reputational damage, the Panel considers that Cr Elliot's conduct had the potential to adversely reflect on the reputation of Council.

The Panel upholds the alleged breach of Part 8(7) of the Code.

Sanctions

In accordance with section 28 ZI(2) the Panel may

(a) uphold the complaint; or

(b) dismiss the complaint; or

(c) uphold part of the complaint and dismiss the remainder of the complaint

Sanctions that may be imposed

If the complaint or part of the complaint is upheld the Panel may impose one or more of the following sanctions:

(d) a caution;

(e) a reprimand;

(f) a requirement to apologize to a person affected by the failure to comply with the code of conduct;

(g) a requirement to attend counselling or a training course, or

(h) a suspension.

The Panel may also determine not to impose a sanction despite upholding the complaint.

During the course of the hearing both parties were asked whether they wished to make submissions as to sanction should all or part of the Complaint be upheld. Both parties made submissions as to sanction.

The Panel imposes a sanction of -

- A reprimand; and
- A requirement to attend a training course as directed by the Director of Local Government.

The Director of Local Government will identify an appropriate training course for Cr Elliot to attend and will communicate his decision to the General Manager of the Hobart City Council.

The Panel considered whether the sanction should include a requirement for Cr Elliot to apologise to her fellow Councillors for the offensive manner in which she described them. The Panel felt that Cr Elliot's views on this matter were so strongly held that any apology she

might proffer would not be made genuinely and, in the circumstances, considered it better not to impose a requirement to apologise.

Timing of the Determination

In accordance with section 28ZD(1) a Code of Conduct Panel is to make every endeavour to investigate and determine a code of conduct complaint within 90 days of the Initial Assessor's determination that the complaint is to be investigated.

The Panel has been unable to determine the complaint within 90 days, owing to -

- Delays owing to the Christmas/New Year holiday period.
- Prolonged illness of one of the Panel Members.
- Availability of a mutually convenient time for Panel members to meet.
- Panel members were involved in several other complaints.

Right to review

A person aggrieved by the determination of the Code of Conduct Panel, on the ground that the Panel failed to comply with the rules of natural justice, is entitled under section 28ZP of the Act to apply to the Tasmanian Civil and Administrative Tribunal for a review of the determination on that ground.

David Sales
Chairperson

Anthony Mihal
Member

Roseanne Heyward
Member

DATE: 19 September 2025

City of HOBART

20 February 2024

Future of Local Government Review
GPO Box 123
HOBART TAS 7001

Via email: Submissions.LGBoard@dpac.tas.gov.au

Dear Sir/Madam

Future of Local Government Review Final Report – City of Hobart submission

The City of Hobart welcomes the opportunity to respond to the Final Report of the Future of Local Government Review and commends the Local Government Board on the review and its contribution to local government reform.

As stated in previous submissions, the City supports the reform of Local Government in Tasmania and is committed to participating in the review process to ensure the local government sector is sustainable into the future.

Given the importance of the Local Government review, the City is committed to seeking the best outcome for the Hobart community and the future of Hobart.

Once again, I thank you for the opportunity to contribute to this important work.

Yours sincerely,

Michael Stretton
Chief Executive Officer

City *of* **HOBART**

Response to the Final Report

Future of Local Government Review

February 2024

Introduction

The City of Hobart (the City) welcomes the opportunity to respond to the Final Report of The Future of Local Government Review. The City commends the Local Government Board (the Board) on the review and its contribution to local government reform.

As stated in previous submissions the City supports the reform of Local Government in Tasmania and is committed to participating in the review process to ensure the local government sector is sustainable into the future.

Given the importance of the Local Government review, the City is committed to seeking the best outcome for the Hobart community and the future of Hobart as the thriving Capital City for Tasmania.

Key issues

The recommendations of the Report, if implemented, will lead to significant reform of local government in Tasmania.

Given the importance of this review and the potential for far reaching outcomes the City of Hobart, as a Capital City, welcomes the opportunity for close and meaningful engagement in in the design and implementation of the changes.

Amalgamation proposals

Whilst supporting the need for reform of Local Government in Tasmania and welcoming updated legislation, investigating alternative services delivery models along with other initiatives detailed in the Final Report, the City has no evidence of Hobartians views on the options identified for council mergers.

Given this the City's submission does not provide any comment on the recommendation that amalgamation proposals be developed for the City of Hobart and Glenorchy City Council. As stated in our previous submissions we do recognise that Tasmania is not best served by 29 Councils and some consolidation is required. If the other Councils identified for voluntary amalgamation in the recommendation wish to do so the transition process must be adequately supported and resourced.

Mandatory shared service arrangements

The City support shared service arrangements that provide economic and social benefits for the community, and increased collaboration between councils to improve service delivery. It is recognised that shared service models can potentially lead to significant gains and improved purchasing power through joint procurement.

In relation to recommendation 13 on the first priorities for developing mandatory shared service arrangements the City considers that given the practicalities and complexities in the services identified further thoughts need to given to these priorities.

A centralised asset management authority may not be the most suitable model to improve asset management planning by councils, standardisation of asset management practices and a clear Asset Management Framework to guide the development of asset management planning and integration with council long-term financial management plan.

The attached document provides the City's comments on each of the Reports recommendations.

Conclusion

The City thanks the Local Government Board and the State Government for the opportunity to participate in the review of local government.

Given the community interest and expectations of local government reform any changes will require expertise in councils and state government to implement and ensure the transition meets the objectives of the Future of Local Government Review.

The Cit of Hobart will continue to play a key role working with the four Greater Hobart Councils, lead key initiatives on a regional basis and work closely with key State Government Agencies.

The Elected Members of the City of Hobart and Glenorchy City Council have met and agreed to identify opportunities for greater cooperation and collaboration and an enhanced relationship between the two Cities.

Number	Recommendation	Response
1	Define in Tasmania's new Local Government Act the role of local government consistent with the statement below: The role of local government is to support and improve the wellbeing of Tasmanian communities by: 1. harnessing and building on the unique strengths and capabilities of local communities; 2. providing infrastructure and services that, to be effective, require local approaches; 3. representing and advocating for the specific needs and interests of local communities in regional, state-wide, and national decision-making; and 4. promoting the social, economic, and environmental sustainability of local communities, by mitigating and planning for climate change impacts.	The City of Hobart supports the proposed expansion to the definition of the of the role of councils and the inclusion in the new *Local Government Act*. It reflects the broader social policy role that councils play and provides a clearer mandate for councils to act on. It will also assist councils to obtain sufficient resources to deliver these important functions.
2	The Tasmanian Government – through subordinate legislation – should implement a Local Government Charter to support the new legislated role for local government. The Charter should be developed in close consultation with the sector and clarify and consolidate in a single document councils' core functions, principles, and responsibilities, as well as the obligations of the Tasmanian Government when dealing with the sector as a partner in delivering community services and support.	The City of Hobart supports a detailed principle-based local government charter and looks forward to being involved in its development.
3	The Tasmanian Government should work with the sector to develop, resource, and implement a renewed Strategic Planning and Reporting Framework that is embedded in a new Local Government Act to support and underpin the role of local government. Under this Framework councils will be required to	The City supports the strengthening of the current approach to strategic planning and reporting. In developing its strategic plan, councils should undertake community engagement to ensure the strategic direction is aligned with the community.

Number	Recommendation	Response
	develop – within the first year of every council election – a four-year strategic plan. The plan would consist of component plans including, at minimum, a: • community engagement plan; • workforce development plan; • elected member capability and professional development plan; and • financial and asset sustainability plan.	Implementation of an integrated approach to strategic planning is strongly supported. A legislated Strategic Planning and Reporting Framework will lead to consistency of practices across all councils and increased accountability and transparency. A minimum suite of agreed performance measures to report on performance of core roles and functions and service quality and cost will help to drive the strategic process and would be welcomed by the City of Hobart and our community.
4	Formal council amalgamation proposals should be developed for the following: • West Coast, Waratah-Wynyard and Circular Head Councils (into 2 councils); • Kentish and Latrobe Councils; • Break O'Day, Glamorgan-Spring Bay and Sorell Councils (into 2 councils); • City of Hobart and Glenorchy City Councils; • Kingborough and Huon Valley Councils. The Board acknowledges council interest in and discussions on boundary changes are less advanced in respect of City of Hobart and Glenorchy, and Kingborough and Huon Valley councils, but nonetheless believes that these councils have expressed clear interest in further exploring opportunities. The Board believes there is substantial merit in ensuring that those councils (and their communities) are afforded the opportunity to genuinely explore structural consolidation proposals in greater detail.	The City reaffirms detail previously provided in relation to the proposed formal amalgamations as provided in the consultation on the Stage 2 Reform Options Paper and the Interim Report. We accept that Tasmania may not be best served by 29 Councils and some consolidation is required. The voluntary amalgamation of the councils, identified in the recommendation is supported. If the councils identified in the recommendation wish to amalgamate, it will be necessary to ensure that the associated transition process is sufficiently supported and resourced. In relation to the development of the amalgamation proposal for the City of Hobart and Glenorchy City Council both Councils are already working together on a range of initiatives such as the Greater Hobart Strategic Partnership, the Northern Suburbs Transit Corridor and the bushfire awareness project, Sparking Conversations, Igniting Action. Both have met and agreed to identify opportunities for greater cooperation and collaboration.

Number	Recommendation	Response
5	A new Local Government Board should be established to undertake detailed assessment of formal council amalgamation proposals and make recommendations to the Tasmanian Government on specific new council structures.	The City supports the establishment of a new Local Government Board.
6	A Community Working Group (CWG) should be established in each area where formal amalgamation proposals are being prepared. The CWG would identify specific opportunities the Tasmanian Government could support to improve community outcomes.	Depending on the terms of reference of the Community Working Group, the City supports the establishment of a CWG for each area where Phase 1 amalgamations proposals are being developed.
7	In those areas where amalgamation proposals are being developed, a community vote should be held before any reform proceeds, to consider an integrated package of reform that involves both a formal council amalgamation proposal and a funded package of opportunities to improve community outcomes.	The City respects the Tasmanian Government's policy position that proposed amalgamations should only proceed with community support. However, we do not consider an elector poll as an appropriate mechanism for use by the community to initiate an amalgamation. The Tasmanian Government should provide leadership in local government reform. The CWG should be responsible for guiding the community consultation required to gauge community support, or otherwise.
8	If a successful community-initiated elector poll requests councils to consider amalgamation, the Minister for Local Government should request the Local Government Board to develop a formal amalgamation proposal and put it to a community vote.	The City does not support the use of community-initiated elector polls to request that councils consider amalgamation. This invites potential conflict in situations where one municipal area votes for amalgamation while the other does not.
9	The new Local Government Act should provide that the Minister for Local Government can require councils to participate in identified shared service or shared staffing arrangements.	The City supports the shared service arrangements that provide economic and social benefits for the community, and increased collaboration between councils to improve service delivery. There will need to be determining factors to identify services that are suitable for the shared service model, these could include: • Skill shortages • Increase to organisational capacity • Achieve efficiencies
10	Give councils the opportunity to design identified shared service arrangements themselves, with a model only being imposed if councils cannot reach consensus.	
11	Before endorsing a particular mandatory shared service arrangement, the Minister for Local Government should seek the advice of the Local Government Board.	

Number	Recommendation	Response
12	If councils are unable to reach consensus on a mandatory service sharing agreement, the Minister for Local Government should have the power to require councils to participate in a specific model or models the Tasmanian Government has developed.	• Improve service levels • Risk mitigation We emphasise our position in the previous submission that any proposed shared service arrangements must be negotiated with the Local Government Association of Tasmania (LGAT) on behalf of all councils before being formalised in a service level agreement. While we understand there will be challenges in reaching consensus when developing shared service agreements, we are unable to support mandatory shared service arrangements without knowing more details. There needs to be more engagement with the sector about when a model could be imposed.
13	The first priorities for developing mandatory shared service arrangements should be: • sharing of key technical staff; • sharing of common digital business systems and ICT infrastructure; and • sharing of asset management expertise through a centralised, council-owned authority.	The City's considers that given the practicalities and complexities in the services identified in this recommendation further thought needs to be given to the priorities identified. The City also reiterates that any mandated shared services should be seeking the best outcome for the community. Sharing of staff would require further detail and engagement to ensure employment conditions are appropriate.
14	Include a statutory requirement for councils to consult with local communities to identify wellbeing priorities, objectives, and outcomes in a new Local Government Act. Once identified, councils would be required to integrate the priorities into their strategic planning, service delivery and decision-making processes.	The City supports this recommendation. However, it is important that this process does not lead to cost shifting from other tiers of government. Community wellbeing is embedded into all of our strategic planning and service delivery through the guidance provided in the Community Vision and Community Engagement Framework.
15	To be eligible to stand for election to council, all candidates should first undertake – within six months prior to nominating – a prescribed, mandatory education session, to ensure all candidates understand the role of councillor and their responsibilities if elected.	The City supports this recommendation, training for candidates should be a prerequisite for nomination in local government elections. It is also important that potential candidates have a greater understanding of the roles and responsibilities of the council as a

Number	Recommendation	Response
		body and the administration.
16	The Tasmanian Government and the local government sector should jointly develop and implement a contemporary, best practice learning and ongoing professional development framework for elected members. As part of this framework, under a new Local Government Act: (a) all elected members – including both new and returning councillors - should be required to complete a prescribed 'core' learning and development program within the first 12 months of being elected; and (b) councils should be required to prepare, at the beginning of each new term, an elected member learning and capability development plan to support the broader ongoing professional development needs of their elected members.	The City supports the development of a Professional Development Framework for elected members. The City further supports mandatory ongoing training for elected members throughout their term and considers that the 'core' training should be completed within 6 months of election.
17	The Tasmanian Government should further investigate and consider introducing an alternative framework for councils to raise revenue from major commercial operations in their local government areas, where rates based on the improved value of land are not an efficient, effective, or equitable form of taxation.	It is important that councils have an appropriate and sufficient revenue base to fund delivery of the infrastructure and services expected by the community and articulated under the Act. The City welcomes the exploration of diverse revenue streams to support the financial operation of councils.
18	The Tasmanian Government should work with the sector and the development industry to further investigate and consider introducing a marginal cost-based integrated developer charging regime.	The City supports this recommendation and has previously advocated that there is a clear need to implement a system to require developer contributions as a revenue source to help local government manage development in its municipal areas. Ensuring adequate provision of infrastructure and all key services is an important function. Councils need to be resourced to undertake such planning and develop infrastructure to support community need. The introduction of developer contributions (applied in most mainland jurisdictions) is one way such resourcing could be made available.

Number	Recommendation	Response
19	Introduce additional minimum information requirements for council rates notices to improve public transparency, accountability, and confidence in council rating and financial management decisions.	The City supports this recommendation.
20	Within the context of the national framework, the Tasmanian Government should seek advice from the State Grants Commission on how it will ensure the Financial Assistance Grants methodology: - is transparent and well understood by councils and the community, - that assistance is being targeted efficiently and effectively, and - is not acting as a disincentive for councils to pursue structural reform opportunities.	The City supports this recommendation.
21	The Tasmanian Government should review the total amount of Heavy Vehicle Motor Tax Revenue made available to councils and consider basing this total amount on service usage data.	The City supports clear and equitable road funding and a review of how the Heavy Vehicle Motor Tax revenue is administered is overdue.
22	Introduce a framework for council fees and charges in a new Local Government Act, to support the expanded, equitable and transparent utilisation of fees and charges to fund certain council services.	The City agrees that fees for goods or services charged under a fee-for-service model should consider the cost to deliver the service as well as any policy objective of the council.
23	The Tasmanian Government should review the current rating system under the *Local Government Act* to make it simpler, more equitable, and more predictable for landowners. The review should only be undertaken following implementation of the Board's other rating and revenue recommendations.	The City would welcome a review of the current rating system, to ensure that the rating system is not only sustainable and can support programs, service and infrastructure needs of the community now and into the future but also ensures a fair and equitable distribution of rates across the municipal area and supports ratepayers capacity to pay. Rates are the main revenue source for local government and are a form of taxation, a property tax. Therefore, in distributing the rating burden the rating structure should align with taxation principles and the following objectives: • fairness and equity for ratepayers • sustainable for councils and affordable for the community.

Number	Recommendation	Response
		• supports ratepayers capacity to pay; • transparent and flexible, being able to respond to unforeseen changes in the economy; and • simple to understand and timely, easy/cost effective to administer.
24	The Tasmanian Government should work with the sector to develop, resource, and implement a best practice local government performance monitoring system.	The City supports the development of a local government performance monitoring system. Transparency around council performance is welcomed, providing communities with clear and accurate information on how well their councils is performing over time and a comparison to other councils will lead to improved accountability. The City considers that measures used should be outcome focused that capture the outcomes of service delivery and able to be used to initiate improvements to performance. Any performance monitoring system should aim to reduce the reporting burden on councils by streamlining reporting requirements and using existing data sources. The City welcomes a review of all existing reporting obligations in consultation with the Tasmanian Audit Office, the sector and the end users of data.
25	The Tasmanian Government should develop a clear and consistent set of guidelines for the collection, recording, and publication of datasets that underpin the new performance reporting system to improve overall data consistency and integrity, and prescribe data methodologies and protocols via a Ministerial Order or similar mechanism.	

Number	Recommendation	Response
26	The new Strategic Planning and Reporting Framework should actively inform and drive education, compliance, and regulatory enforcement activities for the sector, and entities with responsibility for compliance monitoring and management – including the Office of Local Government and council audit panels – should be properly empowered and resourced to effectively deliver their roles. As part of this the Tasmanian Government should consider introducing a requirement for councils to have an internal audit function given their responsibilities for managing significant public assets and resources, and whether this requirement needs to be legislated or otherwise mandated. Consideration should also be given to resourcing internal audit via service sharing or pooling arrangements, particularly for smaller councils.	The City supports a resourced and proactive Office of Local Government that undertakes a compliance and monitoring intervention program. The Office of Local Government should be sufficiently resourced and funded by the State Government, the sector should not be expected to fund the regulatory oversight functions of the Office of Local Government (page 88 of report). The City welcomes a review of the current role, functions and powers of council audit panels. The City of Hobart Risk and Audit Panel engages an internal auditor and develops an annual internal audit program. An internal audit function would be ideally suited to the shared service model.
27	The Tasmanian Government should collaborate with the local government sector to support a genuine, co-regulatory approach to councils' regulatory responsibilities, with state agencies providing ongoing professional support to council staff and involving councils in all stages of regulatory design and implementation.	The City supports this recommendation.
28	The Tasmanian Government should work with the local government sector to pursue opportunities for strengthened partnerships between local government and Service Tasmania.	The City strongly supports the examination of a shared service partnership with Service Tasmania subject to more detail on the proposed model and an understanding of resourcing and costs. The recommendation could be undertaken as a priority and separate to the reform roadmap.
29	Councils should migrate over time to common digital business systems and ICT infrastructure that meet their needs for digital business services, with support from the Department of Premier and Cabinet's Digital Strategy and Services (DSS).	The City supports this recommendation in principle subject to the feedback provided in our submission in February 2023. This is a very ambitious recommendation and would be a long-term project that would need to be sufficiently resourced and funded.

Number	Recommendation	Response
30	The Tasmanian Government – in consultation with the sector – should review the current legislative requirements on councils for strategic financial and asset management planning documentation to simplify and streamline the requirements and support more consistent and transparent compliance.	The City supports this recommendation.
31	The Tasmanian Government – in consultation with the sector – should investigate the viability of, and seek to implement wherever possible, standardised useful asset life ranges for all major asset classes.	As in the City's previous submission in February 2023, this recommendation is supported as long as there is genuine engagement with councils to agree on the standardisation proposed.
32	All Tasmanian councils should be required under a new Local Government Act to develop and adopt community engagement strategies – underpinned by clear deliberative engagement principles.	The City supports this recommendation. It is important that a genuine commitment to community engagement is included in the new *Local Government Act* and should be a core principle for the local government sector.
33	A new Local Government Act should require councils, when developing and adopting their Community Engagement Strategies, to clearly set out how they will consult on, assess, and communicate the community impact of all significant new services or infrastructure.	The City reiterates the feedback provided in the previous submission. Should Community Impact Assessments be mandated, criteria will need to be established to determine what new services and infrastructure would be subject to a CIA.
34	Following the phase 1 voluntary amalgamation program, the Tasmanian Government should commission an independent review into councillor numbers and allowances.	The City is supports this recommendation.
35	The Tasmanian Government should expedite reforms already agreed and / or in train in respect of statutory sanctions available to deal with councillor misconduct or poor performance.	The City supports this recommendation, noting it maintains its support for the additional sanctions which have been previously outlined to the Board.

Number	Recommendation	Response
36	The Tasmanian Government should: • support the Local Government Association of Tasmania (LGAT) to develop and implement – in consultation with councils and their staff – a workforce development toolkit tailored to the sector and aligned with the Tasmanian Government's workforce development system; • support councils to update their workforce plans at the time of any consolidation; • support LGAT to lead the development and implementation of a state-wide approach to workforce development for key technical staff, beginning with environmental health officers, planners, engineers and building inspectors; • recognise in statute that workforce development is an ongoing responsibility of council general managers and is included as part of the new Strategic Planning and Reporting Framework; and • include simple indicators of each council's workforce profile in the proposed council performance dashboard.	The City supports this recommendation but considers that it should not just be limited to key technical staff. The City considers that the Local Government Association of Tasmania (LGAT) is best placed to take the lead in developing a state-wide approach to workforce development but they must be adequately resourced to do so. In addition, working with education and training institutions to develop strategies to meet any skills shortage is vital.
37	The Tasmanian Government should partner with, and better support, councils to build capacity and capability to plan for and respond to emergency events and climate change impacts.	Climate change is altering the risk and hazard profiles for local governments and communities, with more frequent, more extreme weather events intensifying the risk posed by existing and evolving natural hazards. With the increasing complexity of extreme weather and the additional risk faced by communities due to the impacts of climate change, working in partnership is vital. Local government is often responsible for disaster assessments to manage and mitigate the risks posed by natural disasters. Given the increasing role for local government in asset construction and maintenance, land-use planning and disaster response and recovery, there is a critical need for increased investment and support for the sector.

City of HOBART

02 August 2023

Future of Local Government Review
GPO Box 123
HOBART TAS 7001

Via email: Submissions.LGBoard@dpac.tas.gov.au

Dear Sir/Madam

Stage 2 Interim Report and Community Catchment Information Packs – City of Hobart submission

The City of Hobart welcomes the opportunity to provide feedback on both the Stage 2 Interim Report and the Community Catchment Information Packs. The City of Hobart acknowledges the recent change in focus of the Future of Local Government Review as announced by the Premier on 16 July 2023.

The City's submission highlights the importance of implementing wider reforms underpinned by strengthening the *Local Government Act 1993* thereby aligning this legislation with other local government jurisdictions.

We also highlight that enhancing funding to Local Government, implementing shared services, reviewing funding sources for local government, reviewing accounting standards for major assets and strengthening the Elected Member Code of Conduct must also be of priority for local government sector reform.

The City of Hobart commends the Future of Local Government Review Board on its contributions to date and we look forward to providing further input into the future stages of the Local Government Review process.

Kind regards,

Kat Panjari
Acting Chief Executive Officer

City *of* **HOBART**

Response to Stage 2 Interim Report

Future of Local Government Review

Future of Local Government Review

City of Hobart Response to the Stage 2 Interim Report

Executive Summary

The City of Hobart encourages the Board to consider the key principles outlined in the body of this submission specific to Hobart as a capital city. These principles align with the Hobart community vision developed in consultation with our community and are attributes we implore the Board to acknowledge when considering any potential recommended changes to the boundary of the Hobart local government area. This submission highlights:

- The City of Hobart acknowledges the recent announcement from the Tasmanian Government confirming that forced council amalgamations will not occur.
- However, we encourage the Minister for Local Government to proceed with the legislative review to ensure the local government sector is operating efficiently and sustainably.
- Tasmanian Local Government legislation must also be contemporised to be brought into line with other local government jurisdictions, for example reviewing regulations regarding inclusionary zoning, developer contributions and rates and charges must be a priority. The City of Hobart was disappointed with the unilateral approach of the Tasmanian Government in announcing the independent Development Assessment Panel given its direct impact on the remit of the local government sector.
- While the constraints of the current council planning approval and assessment process are recognised, and should be improved, statutory planning responsibilities must remain with local councils.
- Further investigation is encouraged of regional shared service models for services delivered by councils or established authorities on a regional basis.
- Any significant changes to council functions must be adequately planned, communicated and funded by the state to provide certainty for council staff, elected members and the communities they represent.
- The City does not have sufficient evidence outlining Hobartian views on council mergers to form an opinion on the proposed boundary alteration options and whilst the commitment has been provided that boundary changes will not be forcibly imposed, the City considers it very important that should the Board recommend boundary change the following is considered:
- Any local government amalgamations must be presented as a merger and not an annexation; and it is crucial that financial sustainability of catchments be assessed to determine the suitability of amalgamation.
- It is critical that any proposed changes to council boundaries consider economic clusters of activity and their connections to the districts or precincts around them.
- It is vital that the important geographic area of kunanyi/Mt.Wellington be managed by an authority with appropriate knowledge and experience of the mountain's conditions and risks.
- Maintaining community connections and sense of place will be vital in any proposed boundary changes – for example, the inclusion of a rural area within the boundary of a metropolitan area may have negative impacts on the identities and representation of both distinct communities.

- It is critical that any substantial changes made to local government functions whether it is boundary change, mandated shared services or increased collaboration between councils, must be appropriately funded by the state.

Introduction

The City of Hobart welcomes the opportunity to respond to the Stage 2 Interim Report and the community catchment information packs. The City looks forward to working with the Local Government Board (the Board) to provide input into the final package of reform recommendations. The City of Hobart commends the Board on its contributions to local government reform to-date.

Noting the recent announcements from the Tasmanian Government in respect to forced amalgamations, the City strongly encourages the Tasmanian Government to actively and urgently progress contemporising the *Local Government Act 1993* to bring it in line with other local government jurisdictions. The City highlights the importance of implementing wider reforms that include enhancing funding to Local Government, reviewing funding sources for local government, reviewing accounting standards for major assets, such as Doone Kennedy Hobart Aquatic Centre and strengthening the Elected Member Code of Conduct. We emphasise that any comprehensive reviews of local government legislation must also consider the expansion of local government service provision and the shifting of responsibilities from State Government to local government.

In light of the recent independent Development Assessment Panel announcement, the City of Hobart reiterates our view that statutory planning functions must remain with local councils. We have been disappointed with the unilateral approach of the Tasmanian Government in announcing this proposal given its direct impact on the remit of our Councils and the local government sector more broadly.

While the City recognises that the current council planning application and approval process could and should be improved to increase housing supply, local councils understand local issues and the potential planning impacts on a community in a way that other tiers of government do not. The City of Hobart's Community Vision and Capital City Strategic Plan 2019-29 identifies the importance of Hobart keeping a strong sense of place and identity even as the city changes and the City of Hobart – in collaboration with communities and stakeholders – is best-placed to implement city shaping activities and precinct improvements.

We highlight local councils represent the views of their community with the majority of developments proceeding through the local council planning process unimpeded. Additionally, reviewing regulations regarding inclusionary zoning, developer contributions and rates and charges must be a priority.

We now look forward to meaningful engagement with the government and the State Planning Office regarding the Development Assessment Panel proposal, including the draft legislation that will underpin this initiative.

Shared Service models

Shared service arrangements have potential to provide economic and social benefits for councils and their communities. The City of Hobart supports increased collaboration between councils where service delivery is improved. We encourage further investigation of regional shared service models for services delivered by councils or established authorities on a regional basis. Shared service models can be successful if entities sharing services have similar processes for delivering services.

The City sees merit in examining shared service partnerships with Service Tasmania, particularly for transactional customer service interactions.

However, we note there are several factors that require further analysis when assessing the suitability of shared service arrangements. Harmonising service delivery, service frequency and service quality all have the potential to increase operational costs of councils.

We emphasise that any proposed shared service arrangements must be negotiated with Local Government Association of Tasmania (LGAT) on behalf of all councils before being formalised in a service level agreement.

The City of Hobart as the capital city serves as both an administrative centre of government and as an economic centre of the state, generating over 22 per cent of gross regional product in Tasmania. As the capital city, Hobart plays a significant role as a gateway to Tasmania's visitor and tourism economy.

We recognise that Tasmania is not best served by the continuation of 29 councils, yet boundary change has always been difficult to achieve in our state. Although the Tasmanian Government will not proceed with forced council amalgamations, any future amalgamations must be presented as a merger and not an annexation with adequate community education and planning and transition programs to inform communities on how their councils will be affected.

Any significant changes to community representation and council functions must be adequately planned, communicated and funded to provide certainty for council staff, elected members and the communities they represent.

Regarding the options for possible boundary changes as identified in the Stage 2 Interim Report, the City of Hobart does not have sufficient evidence outlining Hobartian views to form an opinion on the options outlined in the community catchment information packs. We also cannot provide comments the alteration of municipal boundaries or any alternative options that the Board should consider.

Should the Board recommend to the Minister that boundary changes proceed, the City of Hobart encourages the Board to consider the following principles specific to any newly establish capital city. These principles align with the Hobart community vision developed in consultation with our community

Principles for a thriving Tasmanian capital city

The City of Hobart encourages the Board to consider the key principles outlined in this submission specific to a newly established capital city.

Local economic clusters/activity centres

Hobart's unique environment plays a key role in shaping our economy from Antarctic science and tourism to creative arts and technology. Hobart's position as the state's international gateway to the Antarctic and Southern Ocean underpins a unique knowledge economy. The Hobart Port and Macquarie Wharf serves as the home of the Antarctic Icebreaker Nuyina and provides critical infrastructure for the capital city to continue to leverage its status as the gateway to the Southern Ocean. Any future boundary reform must strengthen the clustering of this type of specialised economic activity within the current Hobart Port precinct.

As the economic engine room of the state, business and industry connections are one of the City's biggest assets, including strong networks between people, businesses, education and government. We connect industry sectors with jobseekers. We enable clever and resourceful people to find each other and collaborate. It is critical that any proposed changes to council boundaries consider economic clusters of activity and their connections to the districts or precincts around them.

In addition to the natural environment and diverse economic networks, Hobart is characterised by its unique attractions.

It is critical that any proposed changes to council boundaries consider economic clusters of activity and their connections to the districts or precincts around them.

The City of Hobart strongly suggests the Board consider the importance of key attractions such as kunanyi/Mount Wellington, MONA and Salamanca market precinct to the local economy and community when considering municipal boundaries.

Financial Sustainability

Local government provides many core public services in response to the needs of communities. Communities expect services are delivered to a very high standard and regularly expects their local council to expand service delivery. In this context, it is important that Councils have the flexibility to review its services in an order and frequency that makes sense for that Council, rather than a mandated process.

The local government sector is experiencing a range of cost pressures which are impacting long-term financial sustainability and financial circumstances of Tasmanian councils varies across the state. It is crucial that financial sustainability of catchments be assessed to determine the suitability of amalgamation. If certain local councils are not currently financially sustainable, it will be imperative to ensure any future amalgamations do not exacerbate existing inefficiencies and increase operational expenditure.

As a capital city, the City of Hobart is often a critical delivery partner of the State, particularly relating to transport infrastructure. For example, the expansion of the Derwent River ferry service has been enabled by a $20 million Australian Government investment that the City of Hobart leveraged in the 2022-23 Federal budget to expand public transport options in the capital city.

Recognition of local government as a legitimate level of government, and equal partner with significant expertise needs to be a foundation principle of any State and Local Government partnership model.

In the best interests of long-term financial success of local government, it is critical that any substantial changes made to local government functions whether it is boundary change, mandated shared services or increased collaboration between councils, must be appropriately funded by the state.

Connection to the Community

Local government plays a critical role in creating and maintaining a sense of community that facilitates local connections and makes people feel safe and welcome. As Tasmania's capital city, the City of Hobart is at the forefront of shaping a contemporary capital city that is future fit and able to deliver on the current and future needs of our residents, businesses and wider community while retaining the city's sense of place.

Connection to community is a vital aspect of social identity. Neighbourhoods, suburbs and towns are important units in the physical, historical and social infrastructure and often generate a feeling of community and belonging. Wherever possible, dividing these units between local governments should

be avoided. Any impacts to democratic representation must be carefully assessed to ensure representational equity across local communities throughout any transition periods and council mergers.

To mitigate against the erosion of community trust, a transition process could involve the introduction of place-based council wards at a smaller community scale to ensure community connections are maintained. This ward-based model could be phased out by the end of the first term of a merged council as they consolidate their identity and function within the community.

Tasmanian municipal areas showcase considerable diversity not only in population size but local community preferences, population composition and socioeconomic characteristics. Any recommended mergers should take these factors into account. For example, the inclusion of a rural area within the boundary of a metropolitan area may have negative impacts on the identities and representation of both communities.

Sense of Place

Hobart has a strong sense of place, and, for many community members, it is a part of Hobart life they value highly. The mountain, the river, heritage architecture, a human scale, connections between people, local businesses and the diverse and inclusive community are all qualities that make Hobart a special place to live.

The City of Hobart, through the delivery of infrastructure and services, play a significant role in ensuring the liveability, sustainability and wellbeing of communities. Accessibility of recreational facilities, green spaces, playgrounds and reserves, supporting transport options and community gathering spaces are also provided by the City.

kunanyi/Mt.Wellington is Hobart's beloved mountain that is rich in wildlife and blanketed in forest, woodlands and alpine environments.

It is vital that the important geographic area of kunanyi/Mt.Wellington be managed by an authority with appropriate knowledge and experience of the mountain's conditions and risks. The local government boundary reform process provides an opportunity to 'place' the mountain in one municipal area to ensure that expert knowledge and management practices are overseen by one local government area that can strengthen a partnership approach with the state government.

Furthermore, a key attribute of the capital city's unique topography is the bushland that surrounds Greater Hobart. As a bushfire-prone area, the City of Hobart undertakes a wide spectrum of activities to support disaster resilience for our community, from the prevention perspective in risk reduction and building community readiness; to the response and recovery from natural disasters.

It is vital that local government is supported to continue efforts to mitigate and manage the risks of climate change and to support community resilience in partnership with local communities and that local knowledge and management practices are retained.

Conclusion

The City of Hobart looks forward to further engagement on the progress of the Future of Local Government review. If you have any questions regarding the content of this submission, please contact Glenn Doyle via doyleg@hobartcity.com.au.

Greater Hobart: Local Government Reform

Final Feasibility Report

Clarence City, Glenorchy City, Hobart City & Kingborough Councils
January 2017

SGS Economics & Planning

This report has been prepared for Clarence City, Glenorchy City, Hobart City & Kingborough Councils. SGS Economics and Planning has taken all due care in the preparation of this report. However, SGS and its associated consultants are not liable to any person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity taking or not taking action in respect of any representation, statement, opinion or advice referred to herein.

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EXECUTIVE SUMMARY

Introduction

The four Greater Hobart councils – Clarence City, Glenorchy City, Hobart City and Kingborough Councils – have agreed to explore the merits or otherwise of local government reform. Local government reform can involve various forms of collaboration, mergers and/or boundary adjustments. Such reforms have historically sought to achieve:

- Operational efficiency savings and/ or improved service delivery
- Enhanced strategic capacity to address strategic issues and regional interests, and/ or
- Improved advocacy and promotion of shared interests.

The four Greater Hobart councils have agreed on these guiding principles for assessing reforms:

- Is in the interest of ratepayers
- Improves the level of services for communities
- Preserves and maintains local representation, and
- Ensures that the financial status of the entities is strengthened.

The stated potential for efficiency savings from mergers often exceeds what is achieved. Experience elsewhere shows that mergers may come at a net cost instead of savings. But levels of service, the range of services provided and other community benefits generally increase. The same finding applies for collaboration between councils, such as shared service arrangements and resource sharing.

Consequently, nationally and internationally the focus in relation to local government reform has shifted from pursuing efficiency savings within local government administration to achieving better strategic outcomes for the community. **The analysis in this report clearly shows that these strategic impacts overwhelmingly dominate.**

For the Greater Hobart councils, the case for strategic opportunities is especially strong. Planning for future growth, i.e. where people are going to live, and where they will work and how they will travel, is most effective at the appropriate geographic scale, i.e. the metropolitan level. Capital city regions, like Auckland, Brisbane, Toronto and Vancouver have been able to capitalise on the benefits of integrated planning and governance of metropolitan affairs.

Better planning and decision making across Greater Hobart can deliver:

- A more sustainable metropolitan area through the progression of a more compact, multi-nodal spatial form of urban development
- A more efficient transportation system which better supports urban development and reduces car dependency and congestion costs
- A more productive economic base given the agglomeration economies that result from the above-mentioned benefits
- A more effective tourism promotion and development strategy, resulting in increased visitation and tourism spending
- A more resilient pattern of urban development, as natural hazard areas are better managed and damages as a result of extreme events are reduced, and
- A better coordination and sequencing of social infrastructure and social services delivery.

Reform options

The detailed feasibility analysis documented in this report assessed the costs and benefits of the following reform options compared to the no reform option (Option 1 - Business as usual):

- Option 2 - Merger of all four councils (Kingborough, Clarence, Glenorchy and Hobart)
- Option 3 - Strategic alliance between all four councils
- Option 4 - Merger of three councils (Clarence, Glenorchy and Hobart)
- Option 5 - Merger of two councils (Glenorchy and Hobart).

For all reform options, it is assumed a Hobart Capital City Act is introduced that recognises the relationship between the city government and the state government, and the associated responsibilities of being a capital city. Tasmania is currently the only Australian state without a Capital City Act and its usual accompaniments, i.e. a metropolitan wide and integrated land use and transport strategy, and an economic development strategy.

In Greater Hobart there have been past attempts to take an integrated approach to planning for sustainable and competitive urban growth, in the form of the Southern Metropolitan Master Planning Authority (SMMPA), Southern Metropolitan Planning Authority (SMPA), Hobart Metropolitan Councils Association (HMCA) and more recently the Southern Tasmania Councils Authority (STCA). While important, these former collaborations have all failed to deliver the anticipated outcomes. This was mostly driven by the lack of a Capital City Act and individual councils not agreeing on strategic directions and the ability of councils to opt out of strategic decisions, thereby undermining the collective benefits of the joint approach. The commitment of state government is also crucial given its key role in delivering regional transport infrastructure, social infrastructure facilities, and other 'city-shaping' investments.

For any form of collaboration to succeed in the future there is a need a) to involve state government, b) to ensure there are clear roles and responsibilities for member councils and the State, c) to have specific requirements on what the Act must deliver, and d) to ensure outcomes support the interests of the wider community by removing the opt out option of single members.

The key assumptions for each option are summarised in the following table (Table 1).

TABLE 1 OPTIONS FOR REFORM – KEY ASSUMPTIONS

Option 1 Business as usual	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Existing electoral arrangements	Wards implemented initially, phased out over eight year period	Existing electoral arrangements	Wards implemented initially, phased out over eight year period	Wards implemented initially, phased out over eight year period
Existing management arrangements	Rationalisation of the existing executive management teams	Existing management arrangements	Rationalisation of the existing executive management teams	Rationalisation of the existing executive management teams
Same number of elected members	Total number of elected members will be twelve	Same number of elected members	Total number of elected members will be twelve	Total number of elected members will be twelve
Scope and level of services unchanged	Increase in scope and level of services	Level and type of services unchanged	Increase in scope and level of services	Increase in scope and level of services
No savings	Elimination of duplication of services	No savings	Elimination of duplication of services	Elimination of duplication of services
No savings	Savings due to economies of scale	No savings	Savings due to economies of scale	Savings due to economies of scale
No change	Introduction of Capital City Act	Introduction of Capital City Act	Introduction of Capital City Act	Introduction of Capital City Act

Feasibility modelling

The feasibility analysis consists of two forms of analysis of the local government reform options:

- Modelling of financial costs and savings accruing to the participating councils, and
- Modelling of wider social, economic and environmental costs and benefits accruing to the Greater Hobart community.

The most important benefits from local government reform are expected to emanate from better decision-making, generating important benefits to the wider community, but these develop slowly and show their benefits over the long term, 20 years of more. The financial changes tend to be upfront costs, followed by savings over the subsequent years, which effects are largely apparent by year ten. While extrapolation of financial conditions beyond ten years is highly uncertain, we have chosen to extrapolate to show the relative effects of financial and strategic effects in the longer term.

The integrated results of the financial and wider cost benefit modelling of the reform options are shown in Table 2. The net overall benefits over a twenty year timeframe show:

- The merger of all four councils (option 2) results in a net benefit of $383 M (Net Present Value), or approximately $19 M per annum on average
- The strategic alliance for all four councils results in a net benefit of $294 M, or approximately $15 M per annum on average
- The merger of Clarence, Glenorchy and Hobart results in a net benefit of $264 M (NPV), or approximately $13 M per annum on average, and
- The merger of Glenorchy and Hobart results in a net benefit of $166 M (NPV), or approximately $8 M per annum on average.

TABLE 2 FINANCIAL AND WIDER COST BENEFIT MODELLING RESULTS, 20 YEAR TIMEFRAME

Impact (millions of dollars, present day values)	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Financial costs/benefits	-$10	-$1	-$3	$33
Wider costs/benefits	$393	$295	$267	$134
Net present value (NPV)	**$383**	**$294**	**$264**	**$166**
NPV/ratepayer - benefit	**$391**	**$300**	**$333**	**$321**

Source: SGS Economics and Planning 2017

Financial feasibility modelling

The financial feasibility modelling makes realistic assumptions reflecting past experience that shows optimistic aspirations for financial savings are generally not achieved due to:

- Unforeseen implementation costs
- The new council entity failing to follow through with envisaged changes, and/ or
- Efficiency gains being reinvested into service delivery improvements or strategic projects.

The financial feasibility analysis (the apparently worst case but in practice realistic scenario) therefore makes a number of key assumptions, the two with the biggest impact being that as part of staff harmonisation, salaries will skew towards the highest reward level of the four councils, and the high initial cost of an investment into an integrated new ICT system.

The results of the financial feasibility analysis are summarised in Table 3. The financial impact on ratepayers varies from a cost of $10 per ratepayer per year for Option 2 to a savings of $63 per year for Option 5.

TABLE 3 FINANCIAL FEASIBILITY MODELLING RESULTS, NET PRESENT VALUES (NPV), 10 AND 20 YEAR TIMEFRAME

Impact (millions of dollars, present day values) ten years Negative values = costs	Option 2 – Merger 4 councils	Option 3 – Strategic alliance	Option 4 – Merger 3 councils	Option 5- Merger two councils
Transitional Costs	-$8.5	$0	-$4.9	-$5.4
Staff	-$17.7	$0	-$4.5	$18.3
IT	-$17.1	$0	-$17.1	-$5.0
Governance	$10.1	$0	$6.7	$3.1
Materials and contracts	$15.3	$0	$12.8	$8.4
Assets	$1.8	$0	$1.8	$0.8
Net present value, all, ten years	**-$16.0**	**-$0.9**	**-$5.3**	**$20.3**
Annualised impact per ratepayer (cost or savings), ten years	**$25**	**$1**	**$10**	**$60**
Net present value extended to 20 years	**-$10.0**	**-$0.9**	**-$5.0**	**$32.8**

Source: Morrison Low 2017 & SGS 2017

The financial results over a 20 year (and 10 year) timeframe are:

- Option 2, Merger of four councils: net cost of $10.0 M ($16.0 M), or about $0.9 M per annum
- Option 3, Strategic Alliance of four councils: net cost of $0.9 M ($0.9 M), or $0.08 M per annum
- Option 4, merger of Clarence, Glenorchy and Hobart: net cost of $2.8 M ($5.3 M) or $0.24 M per annum, and
- Option 5, the merger of Glenorchy and Hobart: net saving of $32.8 M ($20.3 M), or about $2.9 M per annum.

The two city merger option saves money while the wider mergers show a net cost. This is largely because the staff costs for Clarence are particularly low compared to Hobart and Glenorchy, both staff numbers and average wages. The assumption is that staffing patterns will tend to skew toward the highest level within the merged entity. This would raise the employment costs for the Clarence staff in the merged entity, and combined with the high initial IT costs exceed the anticipated savings. This is also true for the four council merger.

However, these financial costs are very small in percentage terms. The savings from the Hobart Glenorchy merger represent about 1% of the total budget for these cities. The costs for Hobart-Glenorchy-Clarence merger represent less than 0.2% of these cities combined budgets. There are likely to be other influences over these time frames that have far more impact.

Sensitivity analysis shows that if the merged entity were able to control staff costs to the average of the four councils, there would be a substantial net financial saving in all merger options, ranging from $20 M to nearly $50 M (optimistic scenario).

The merged entities would continue to perform well in terms of financial sustainability with each merger option achieving five of the six sustainability factors (Table 4). As part of the no reform option (Option 1), the stage 1 baseline analysis shows broadly similar performance.

TABLE 4 MERGER OPTIONS PERFORMANCE AGAINST SUSTAINABILITY INDICATORS

	Underlying Operating result	Operating surplus ratio	Net financial liabilities	Net financial liabilities ratio	Asset sustainability ratio	Asset consumption ratio
Option 2 -Merger 4 councils	✓	✓	✓	✓	✗	✓
Option 3 – Strategic alliance	✓	✓	✓	✓	✗	✓
Option 4 -Merger 3 councils	✓	✓	✓	✓	✗	✓
Option 5 – Merger 2 councils	✓	✓	✓	✓	✗	✓

Source: Morrison Low 2016

Wider cost benefit modelling

The wider cost benefit modelling, reflects the results of better decision making resulting in improved urban growth patterns and enhanced economic competitiveness. This is driven primarily by the promotion of infill development and the commensurate alleviation of greenfield development demand.

The wider cost benefit modelling was performed over 20 years recognising the long gestation period for these benefits. The results of the wider cost benefit modelling are summarised in Table 5.

TABLE 5 WIDER COST BENEFIT MODELLING RESULTS (20 YEAR ANALYSIS)

Impact (millions of dollars, present day values)	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Transport cost savings	$274.9	$206.2	$186.9	$93.5
Tourism yield improvements	$68.0	$51.0	$46.2	$23.1
Infrastructure cost savings	$30.6	$22.9	$20.8	$10.4
Active transport health	$12.0	$9.0	$8.2	$4.1
Environmental savings	$7.7	$5.8	$5.2	$2.6
Agglomeration economies	-$0.3	-$0.2	-$0.2	-$0.1
Total	**$392.9**	**$294.7**	**$267.1**	**$133.6**

Source: SGS Economics and Planning 2016

The most significant benefits are generated through transport cost savings, as a result of the improved integration of land use and transport planning and a more consolidated form of urban growth, with reduced travel distances and times for the population in accessing jobs and services, and more people using active forms of travel (e.g. walking, cycling) generating health benefits.

An integrated strategy for tourism and economic development will generate a higher tourism yield by local businesses as more interstate and international tourists are attracted to Greater Hobart and/ or the length of their stay (spend) is extended.

Due to the more consolidated pattern of urban growth involving more infill development, there are anticipated savings in terms of infrastructure costs. Infill dwellings are associated with lower off-site infrastructure servicing costs, generating substantial savings over time.

In comparison to the relatively minor financial costs and savings in council administration of the four options, the potential strategic benefits are very large.

Key risks

One of the main risks, and a risk that is also hard to manage for the councils, is the declaration of the Capital City Act by state government. This risk will predominantly affect the strategic alliance option

(Option 3), as a failure to declare the Act will particularly undermine the effectiveness and expected benefits of this option more than if there is an effective merger.

Another key risk is the potential disruptive and costly consequences of different organisational cultures clashing in a merger. Strong leadership to build a new entity with a strong shared identity combined with a well-managed transition process will be need to manage this risk.

If restrictive legislation, political pressures or other factors prevent the new entity from implementing key cost saving decisions, the financial outcomes of any merger will be adversely affected.

A possible risk is rates equalisation. Over time, a merged entity would likely equalise its rates regime. The general rate regimes for Hobart and Glenorchy are very similar. However, the average rate paid per household in for instance Hobart is much higher than in Glenorchy. This is due to differences in property values rather than differences in rates between the two councils. Rates equalisation between Hobart, Glenorchy and Clarence is therefore expected to be manageable, without major changes to ratepayers concerned[1].

Conclusions

The four guiding principles need to be broadly interpreted to reflect the extent to which the reform options generate benefits for the community, outside of changes to rates and council services. To fully reflect the merits of the options, the generation of wider benefits to the community was added to the four guiding principles formally adopted (Table 6).

The financial modelling, backed by experience of recent mergers elsewhere in Australia suggests net costs of the merger options 2 and 4 will result in increased costs which may require rates increases if no assistance is received from State government. The merger options are all expected to result in service improvements with the merged councils also diversifying the range of services in line with changing community needs and expectations. Local representation is largely maintained during the transition across all options. The inclusion of a wards system ensures all communities are electorally represented as the larger entity becomes established.

All of the options are expected to result in financially sustainable councils. However, the stand-alone and strategic alliance options will over time likely see increasing pressure to increase rates to ensure service levels meet the needs of the community.

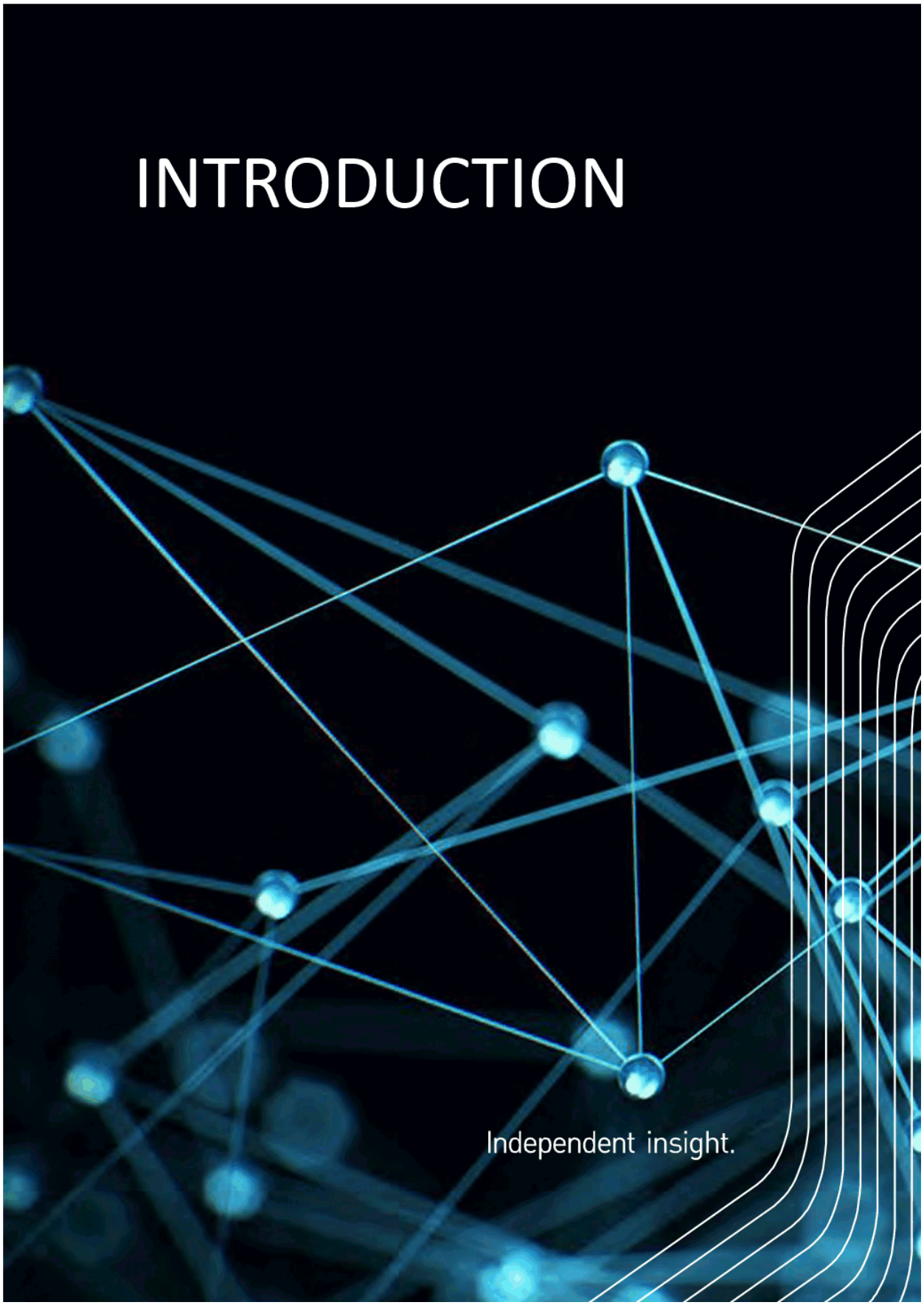
The main merit of local government reform is improved strategic capacity and decision making. The wider costs and benefits modelled in this report signify how the community as a whole benefits from council merger, especially where it involves all four councils, and the introduction of a Capital City Act.

TABLE 6 THE REFORM OPTIONS AGAINST THE KEY PRINCIPLES

	Option 1 – Business as usual	**Option 2** Merger Four Councils	**Option 3** Strategic Alliance Four Councils	**Option 4** Merger Three Councils	**Option 5** Merger Two Councils
Ratepayer's interest	Neutral	Rates may go up	neutral	Rates unchanged	Rates may go down
Level of services improves	No, may deteriorate	Yes	No, may deteriorate	Yes	Yes
Maintains local representation	Yes	Via wards in transition	Yes	Via wards in transition	Via wards in transition
Ensures financial status is strengthened	Neutral	Potentially	Neutral	Potentially	Potentially
Generates benefits to the community	No	Yes, greatest benefits	Yes, second greatest benefit	Yes, third greatest benefit	Yes, significant benefit

[1] Kingborough has a different rating regime which is not directly comparable.

A merger of all four councils would provide the best overall outcomes, but also attracts substantial complexities in terms of risk management, transition and cost control. State government support, community support and engagement of current elected members are critical for the success of the transition to the new capital city council. The mergers of Clarence, Glenorchy and Hobart and especially Glenorchy and Hobart are less complex in terms of risks, transition and cost control. The stand-alone option does nothing to improve the outcomes for the community.


INTRODUCTION
Independent insight.

1 INTRODUCTION

State Government has initiated a voluntary process for local government in Tasmania to collect and consider evidence for local government reform. Reform has been identified as a means to address issues that (some) councils in Tasmania are facing (February 2015):

- Sustained annual operating deficits
- Low asset management ratios
- Backlogs in road infrastructure maintenance
- Falling net financial assets
- Rates increases beyond price inflation, and
- Low and sometimes declining population numbers, and ageing of population

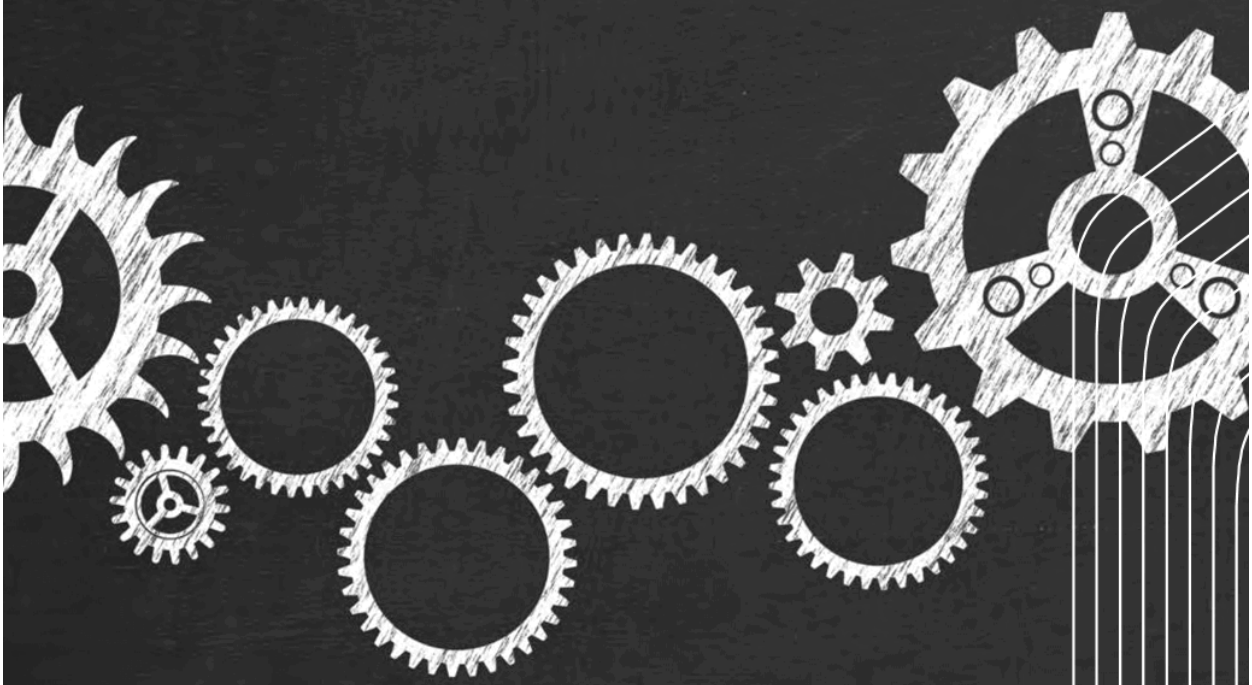
By addressing these issues, the Minister expects that councils will continue to deliver quality services and charge affordable rates, while remaining financially sustainable. Councils may also see an increase in the scope of services expected from their communities in future, with the ageing of their constituent populations being just one driver.

Clarence City, Glenorchy City, Hobart City and Kingborough Councils have taken up the challenge to collate and consider evidence for local government reform. The guiding principles for local government reform as defined by the four councils stipulate that local government reform:

- Is in the interest of ratepayers
- Improves the level of services for communities
- Preserves and maintains local representation, and
- Ensures that the financial status of the entities is strengthened.

This report provides a detailed feasibility analysis of short listed reform options. It builds on the results of Stage 1 Discussion Paper report which includes a baseline analysis of the individual performance of the four councils, a functional region analysis, a review of the communities of interest and local priorities, a review of local government reform best practice and a short listing of options for further detailed analysis.

THE CASE FOR CHANGE



Independent insight.

2 THE CASE FOR CHANGE

2.1 Why reform and how?[2]

Objectives of local government reform

When considering local government reform, the first question to ask is: Why pursue local government reform?

The Australian Centre of Excellence for Local Government (ACELG) identified that the need for local government reform is evolving, with the focus of addressing "challenges such as financial sustainability, changing community needs and expectations, metropolitan growth and shifting relationships with centre governments" (ACELG 2011, p8).

While efficiency savings are often at the forefront of local government reform discussions, they are not nor should they be the sole objective of reform.

The objectives for local government reform can be summarised as:

a. **Operational efficiency savings and improved service delivery** (economies of scale, reducing duplication). Typically, areas that can generate efficiency savings involve operational, back office activities such as IT, human resources, procurement, asset and waste management. The actual efficiency savings realised vary by service and local government formation, as the threshold population size for optimal service delivery varies by service.

b. **Strategic capacity** to address strategic issues and regional interests. Councils need the skills and resources "to be high capacity organisations with the requisite knowledge, creativity and innovation to enable them to manage complex change" (Local Government Reform Commission Queensland, 2007). Local government reform can substantially contribute to the strategic capacity of participating councils, or the merged entity.

c. **Advocacy and promotion**. Reform enables participating councils or the merged entity to speak with one voice and to become a substantial partner for state and federal government and other organisations. Advocacy is especially important and interrelated with strategic capacity and ensuring sub-regional challenges around land use, housing, transport and infrastructure are being addressed.

Important in regards to the four councils is that together they form the majority of Greater Hobart, the economic, civic, cultural and population capital of Tasmania.

Over recent decades in Australia, reform objectives have shifted from the early (1990s) focus on efficiency gains to more contemporary, all-encompassing objectives. This shift has recognised the inter-relationship between the reform objectives and the elusiveness of long term efficiency gains.

Greater Hobart as a City Region

In modern economies, major cities have become the economic engine of regions. These cities often experience substantial pressure in terms of population and economic growth; increasing infrastructure delivery demands and impacts on (natural) resources. In short, there is often a strong common agenda

[2] This section provides a synopsis of the Stage 1 Discussion Paper.

with strategic opportunities and issues, and a need for a concerted effort in relation to advocacy and promotion.

Hobart is the only capital city in Australia that is not recognised through a **Capital City Act**. A Capital City Act recognises the relationship between the city government and the state government, and the associated responsibilities of being a capital city. Benefits of a Capital City act include enhanced outcomes for strategic planning, including in the crucial areas of economic development, transport infrastructure, affordable housing, social inclusion, tourism and so on.

The four Greater Hobart councils believe that any potential local government reform needs to promote the better management of the Greater Hobart region within the framework of a Capital City Act. Local government reform within this context can occur in the form of:

- Stand-alone improvements
- Collaboration among councils (including partnerships for shared services and formalised alliances)
- Council mergers, and
- Boundary adjustments.

Standalone improvements

All councils should strive for standalone improvements as they aim to evolve to better serve their communities.

Some common elements of standalone improvements include a culture of integrated strategic planning, aligning a clear hierarchy of strategic plans, a commitment to reviewing service delivery to best reflect strategic goals, the measurement and benchmarking of service delivery performance, strong community engagement with the business of council, ensuring councillors focus on strategy and policy direction rather than local decisions, and outsourcing the right services to external parties.

Given the relative sophistication of local government in Tasmania, ongoing standalone improvements are expected to generate only marginal benefits. Moreover, a narrow focus on standalone improvements may inhibit the realisation of broader reform opportunities.

Collaboration between councils

Collaboration between councils can take many forms and can generate significant benefits in terms of efficiency gains, service delivery improvements, strategic capacity improvements, and advocacy and promotional advantages.

As cities grow, they increasingly grow across historically defined municipal borders. Greater Hobart too has grown well beyond the initial geographic boundaries of the City of Hobart. Councils in city regions generally show a strong interest in collaborating towards their shared strategic agenda for urban growth and development. Collaboration is designed to strengthen the capacity of the city to leverage the socio-economic development advantages of joint planning for land use, infrastructure and services, as well as advocating the funding of these priorities to state and federal government. Examples include regional strategic planning, social policy and city transport services in Metro Vancouver, as well as both Toronto and Auckland prior to their full mergers. These examples are particularly important in the context of Greater Hobart.

There are numerous collaboration forms, with the intensity and structuring of collaboration varying widely. Collaborative forms extend from informal networks to shared resources to the devolution of particular council authorities to a joint body to pursue a shared agenda between councils.

Ultimately 'form should follow function' in that the form in which collaboration is effected should reflect the initially agreed functions or objectives of collaboration. In turn, as collaboration objectives evolve over time, so too might the form of collaboration.

Some of the most relevant forms of collaboration, described in detail in the stage 1 report, include:

- Shared services
- Shared outsourcing
- Alliances to enhance strategic capacity, and
- Statutory joint authorities and council owned companies.

Joint authorities have the mandate to act on agreed topics and there is reduced opportunity for councils to opt-out of particular decision/ initiatives. Given the role of councils there is often a strong incentive to collaborate on issues surrounding urban growth and development, particularly across contiguous urban areas. Benefits can be derived through the collaborative planning of land use, infrastructure and service delivery, and in advocating for the funding of these functions.

Best practice collaboration respects the need for:

- The form of collaboration to follow agreed collaboration functions/ objectives
- The accurate targeting of services that are shared and/ or outsourced (i.e. routine, high volume services)
- Market contestability for the delivery of these shared/ outsourced services
- Designing collaboration arrangements around communities with a common identity, common interests and which are considered cohesive
- Clearly distinguishing the roles of elected councillors and service managers
- Building trusted relationships between collaboration participants, and
- Ensuring that the costs and benefits of collaboration are equitably allocated among participants.

In case of Greater Hobart there have been past attempts to take an integrated approach to plan for sustainable and competitive urban growth, in the form of the Southern Metropolitan Master Planning Authority (SMMPA), Southern Metropolitan Planning Authority (SMPA), Hobart Metropolitan Councils Association (HMCA) and more recently the Southern Tasmania Councils Authority (STCA). While important attempts, these former collaborations have all failed to deliver the envisaged outcomes. This was mostly driven by individual councils not agreeing on strategic directions and the ability of councils to opt out of strategic decisions, thereby undermining the collective benefits that could have been derived from a joint approach. Also, commitment of state government is crucial given its key role in the delivery of transport infrastructure, regional facilities and other 'city-shaping' investments.

For any form of collaboration to succeed in the future there is a need a) to involve state government, b) to ensure there are clear roles and responsibilities for member councils and state, c) to have specific requirements on what the Act has to deliver (see below) and d) to ensure outcomes support the interest of the wider community while single members cannot opt out on.

Capital City Acts around Australia recognise the special role the capital city council plays and how that role differs from other councils. The local authorities of a capital city have a greater responsibility to develop as the 'centre' or at the 'heart' of a state, and therefore play a leading role in economic development and civic affairs for the benefit of the whole state. The Acts enable partnerships to be formed with other levels of government, mainly the state government, that enable planning and development of the city that benefits the broader community that is served by the capital. In order to enhance the capital cities role special provisions are made under the Acts that may change electoral arrangements, statutory planning, regulation of the area, and service delivery.

Council mergers

Council mergers occur when two or more councils form one larger governing entity and become accountable to a single strategic plan and budget, and ultimately, a single set of land use controls, and policies and processes for service delivery.

Until the 1990s mergers were typically driven by intended efficiency savings. From the 1990s onwards, however, there has been a change in direction with state governments pursuing an agenda of enhanced strategic capacity, of which efficiency savings form an element. This is true for both the Queensland reform cycle in the nineties and the more recent Fit for the Future process in NSW.

Mergers can certainly improve the strategic capacity of councils to manage complex urban development issues, particularly in relation to land use and transport. Indeed well-designed mergers may be better than council collaborations for managing and advocating for land use and transport integration across contiguous urban areas.

Strengthening strategic capacity – city regions

To plan for growth, enhance the competitiveness of Greater Hobart and improve the liveability of the city and all its residents, there is a need to effectively pursue a strategic agenda and enhance advocacy and promotion of the city.

Nationally and internationally, there are city councils that have maximised strategic capacity through mergers, such as Toronto (2007), Auckland (2010) and Brisbane (since 1925).

While the scale of Toronto, Auckland and Brisbane is well beyond Greater Hobart, the key lesson from these city regions is their ability to achieve strategic capacity through transit, transport and land use, not necessarily a reduction of costs.

The potential benefits of amalgamation can be diverse and depend on the specific situation and context of the amalgamating councils. Typical benefits include:

- Enhanced long term sustainability (through efficiencies and other savings)
- More robust and growing rate base and other sources of own source revenue
- Increased level of service to the community
- Increased strategic capacity
- Enhanced advocacy on behalf of the community, and
- Enhanced resources and capabilities to cope with complex issues and unexpected change.

A report by the NSW Independent Local Government Review Panel (2013) noted that:

> *"There needs to be a balance between two seemingly opposed agendas: the need for increased scale and capacity to meet a number of key challenges facing councils and community and the importance of keeping the local in local government so that community identity and local democracy are protected and where possible enhanced".*

Typically a rationalisation in the number of councillors occurs, though local community boards or an expanded ward systems can be used to ensure local representation is maintained. Certainly the experience points to the ongoing conflict between generating economies through greater council 'scale' and the need to protect 'local democracy'.

While council mergers can generate benefits across the areas of efficiency gains and service delivery, strategic capacity, and advocacy and promotion enhancements, the actual results appear to be highly variable. Sometimes potential efficiency gains remain unrealised as new councils:

- Face unforeseen implementation costs
- Fail to follow through with envisaged changes, or
- Reinvest efficiency gains into service delivery improvements or strategic projects.

Best practice highlights that:

- Amalgamated entities must be designed to match with communities of common interest (similar to collaboration between councils)
- A threshold of community support is required to ensure success

- Benefits relating to improved efficiency, strategic capacity and advocacy and promotion must clearly outweigh likely losses in local democracy
- Transaction and transition costs need to be well understood and managed, and
- Legacy issues linked with particularly poor council performance (e.g. massive asset maintenance backlogs) do not burden the new entity disproportionately.

When merging councils it is important that a transitional body and governance relationships are established, a reasonable timeframe for implementation and evaluation is provided, and that the steps towards full amalgamation are identified and mapped.

Key implementation issues revolve around the prioritising of services for joint delivery, i.e. to minimise duplication and maximise efficiencies, and resolving award (staff remuneration) and community service delivery expectations, which if not addressed specifically usually equalise upwards.

Boundary adjustments

Boundary adjustments can occur in combination with mergers or stand-alone improvements, and are generally intended to make council operations more efficient and effective, and/or to achieve better alignment of council boundaries with communities of interest.

2.2 Serving communities of interest

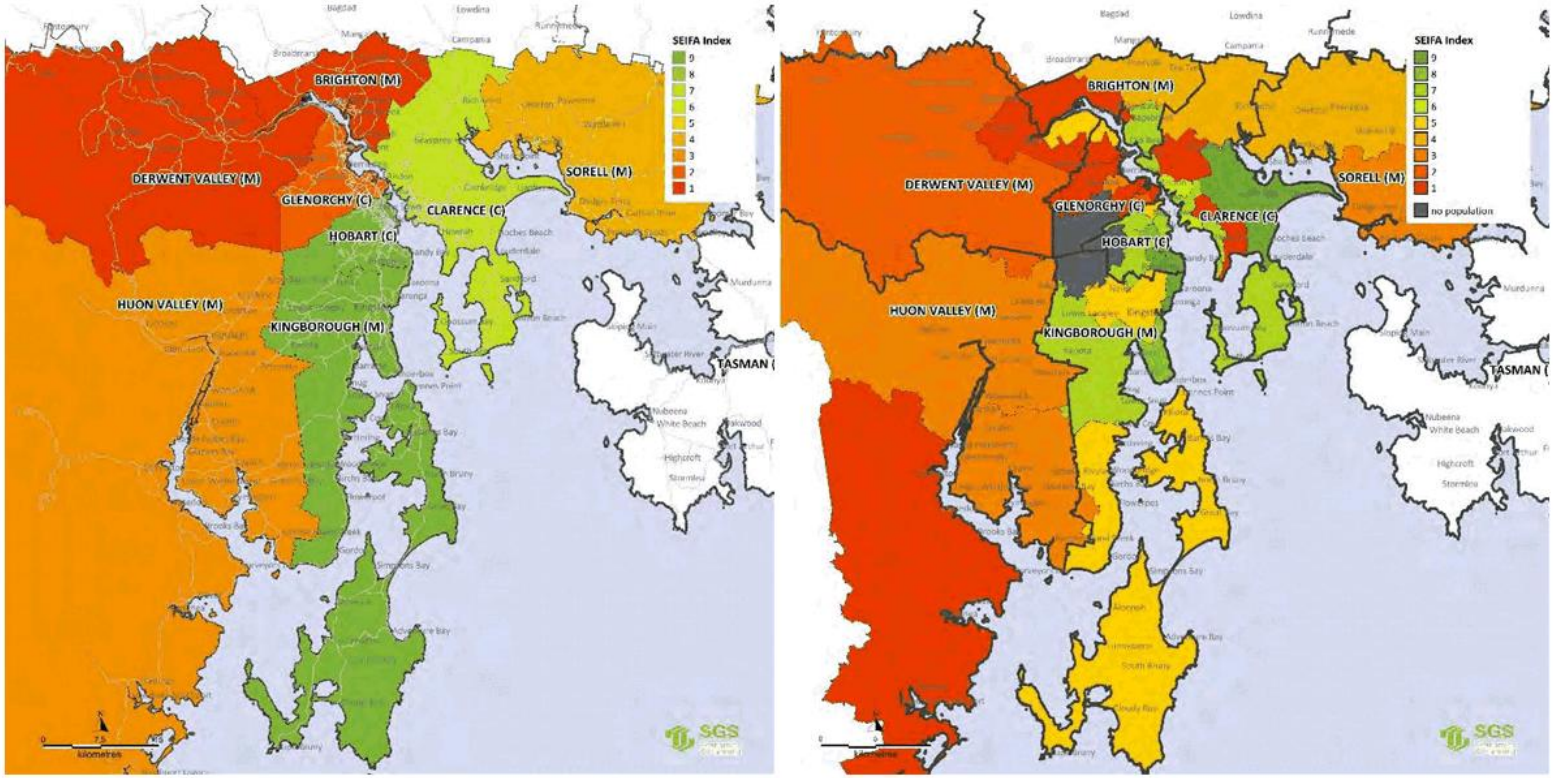
Communities of interest

Given that success elsewhere in implementing local government reform has relied on targeting reforms to communities that share common interests and characteristics and feel connected, SGS examined functional economic and social relations between the four participating councils.

This examination found that all four councils have significant functional linkages (population growth, employment, transport, migration); showing that together they truly form a continuous urban area. However, the analysis has also revealed that from a socio-economic perspective, Glenorchy is substantively different in that it is socio-economically more disadvantaged.

Taking a more granular approach, Glenorchy shows strong commonalities with particular SA2 areas in Clarence (Figure 1, next page). The Huon Valley also has strong linkages with Kingborough.

FIGURE 1 SOCIO-ECONOMIC SCORES FOR LOCAL GOVERNMENT AND STATISTICAL AREAS (SA2) IN GREATER HOBART



Score 1 = highly disadvantaged area; 9 = highly advantaged area. SEIFA (Socio-Economic Index for Advantage and Disadvantage) is an index on indicators such as household income, unemployment levels, literacy, education and housing
Source: ABS data, SGS Economics & Planning (2016)

Indicative population projections by SGS, based on an extrapolation of ABS estimated resident population data, suggest population growth rates will be particularly strong in Clarence and Kingborough, the areas that also have the majority of greenfield land available for development (Table 7).

TABLE 7 PROJECTED POPULATION GROWTH RATES FOR THE FOUR LGAS

	Projected population growth AAGR (2016-2021 – SGS projections)
Clarence	0.95%
Glenorchy	0.54%
Hobart	0.28%
Kingborough	2.09%

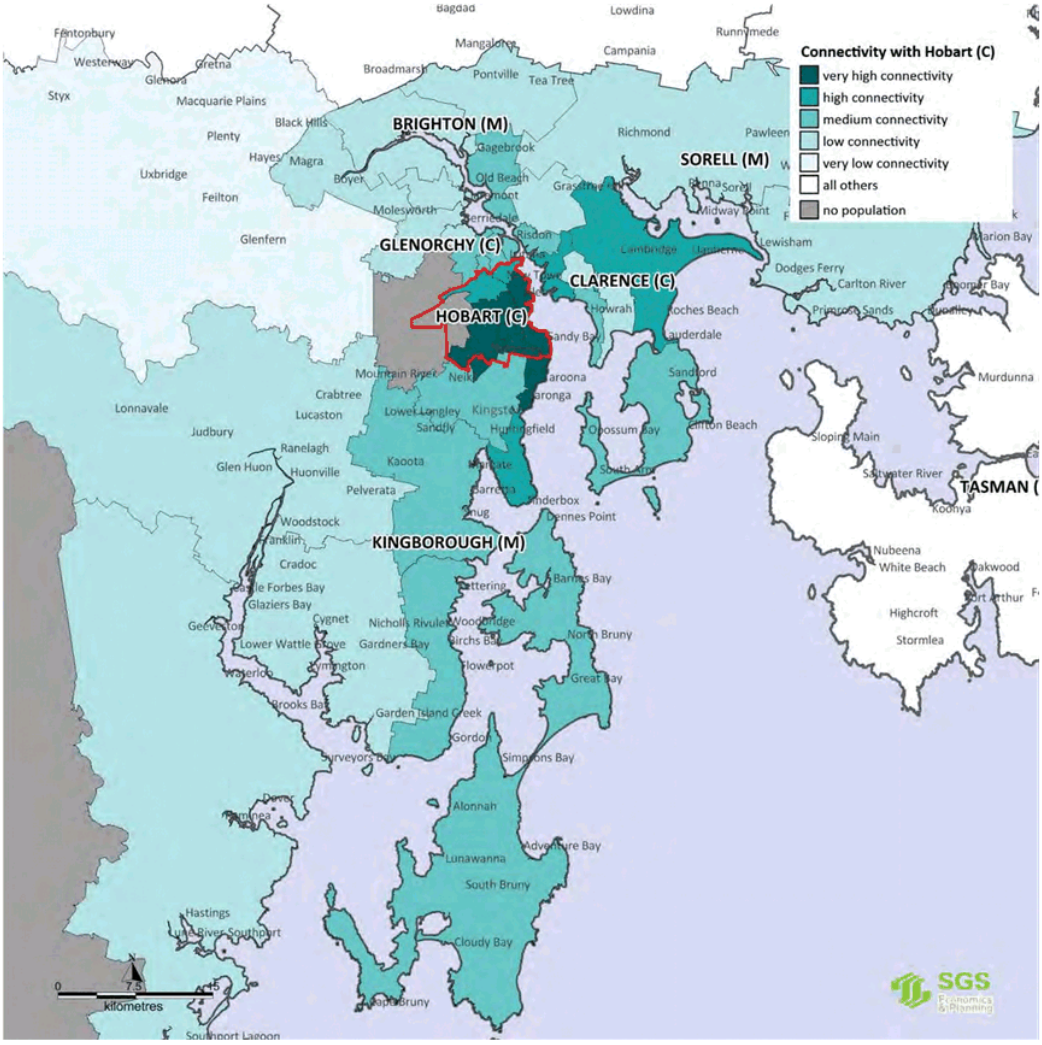
AAGR = annual average growth rate
Source: SGS (2016), based on ABS; DPAC (2016)

The functional area analysis shows that Clarence, Glenorchy and Kingborough have strong ties with Hobart especially in terms of employment (Figure 2, next page). The City of Hobart is the economic centre of the region. Many residents from Kingborough, Clarence and Glenorchy commute into Hobart for employment; they are more likely to be employed in Hobart than in the municipality they reside in.

There are strong migration patterns between the four councils. There are strong flows from Glenorchy, Clarence and Kingborough into the City of Hobart. However, there is also significant migration from Hobart and Glenorchy into Clarence, and from Hobart into Kingborough.

The functional area analysis further shows that Taroona-Bonnett Hill is very highly connected to Hobart (that is across all four indicators), and Brighton-Pontville, Bridgewater-Gagebrook and Austins Ferry-Granton are highly connected to Glenorchy.

FIGURE 2 FUNCTIONAL CONNECTIVITY OF GEOGRAPHIC AREAS WITH HOBART LGA



Source: SGS Economics and Planning (2016)

Common priorities & Council services

Communities of interest also relate to the potential for a shared agenda amongst the participating councils. To examine this potential, SGS reviewed the strategic plans, organisational structures, service delivery profiles and financial positions of each of the four councils.

At present, the majority of population and economic growth occurs in cities, as is evidenced across Australia and internationally. Given that cities are now the locus for economic development, i.e. in a competitive arena where accessibility and liveability are paramount, these themes reinforce the need to manage the development of Greater Hobart optimally.

Recent urban growth across Greater Hobart, and the congestion issues that have resulted, highlight that there is no strategic vehicle that shapes urban development in a manner that ensures Hobart continues to be well positioned to attract investment, people and jobs. Greater Hobart is the only capital city in Australia that lacks a comprehensive urban growth strategy; an integrated land use and transport strategy, an economic development strategy and a Capital City Act to commit government to act. Together, the four councils have the opportunity to fill this vacuum.

This examination highlighted a number for opportunities that might be progressed through reform, with these opportunities coalescing under the themes of:

- Integrated land use and transport planning, resulting in a more consolidated pattern of urban growth, optimising land use and transport infrastructure investment
- Capital city economic development and urban competitiveness
- Social inclusion and participation
- Environmental management and waste management of natural hazards across municipal boundaries
- Regional planning for sports and recreation, preventing duplication of facilities and improve positioning to attract funding to invest, and
- Service delivery.

A summary of council strategic priorities is included in the appendix (Section 6.2).

2.3 The reform options

A long list of reform options of the constituent communities was prepared (as per best practice). The list was also informed by the over-riding instructions of the participating councils, i.e.

- Hobart was to be considered as part of all options, and
- Options should test the impact of including and excluding Kingborough (which has also been highlighted as a potential need in the communities of interest discussion).

The potentially feasible combinations of councils included all four, groups of three, and groups of two councils.

A multi-criteria analysis of these 19 options[3] was undertaken to short list the options that were likely to be most feasible. This MCA analysis included a qualitative assessment of the performance of each option in terms of the guiding principles stipulated by the four councils, the strategic opportunities identified, along with the degree of potential efficiency savings that might be generated.

Local government reform guiding principles	Identified strategic opportunities
– Is in the interest of ratepayers – Improves the level of services for communities – Preserves and maintains local representation – Ensures that the financial status of the entities is strengthened.	– Integrated land use and transport planning – Capital city economic development and urban competitiveness – Social inclusion and participation – Environmental management and waste management – Regional planning for sports and recreation – Service delivery.

[3] See appendix for overview of all options (Section 6.1)

From the nine options that were shortlisted, the following 5 options have been subjected to a more detailed feasibility analysis:

1. Stand-alone councils (business as usual)
2. Merger between all four councils
3. Strategic alliance between all four councils
4. Merger between Clarence, Hobart and Glenorchy
5. Merger between Hobart and Glenorchy

Option 1. Business as Usual – stand-alone councils

The business as usual scenario describes and values the performance of the four councils as they continue to operate as four independent entities. All councils will continue to pursue improvement in service delivery, governance structures and processes, and continue to recognise and respond to changing internal and external conditions. These improvements have been built into councils' current strategic plans, long term financial plans and subordinate plans.

As part of this scenario, councils will continue to enhance their operations on a stand-alone basis involving a mixture of (based on best practice) some or all of the following elements:

- Integrated strategic planning, including an aligned hierarchy of strategic plans
- Ongoing review and improvement of service delivery
- Benchmarking of service delivery performance
- Community engagement, and
- Where applicable - outsourcing of services.

Experience elsewhere shows that stand-alone improvements are likely to deliver marginal gains. Furthermore, stand-alone improvements are also expected to occur under any of the remaining scenarios.

Last but not least, strategic opportunities the four urban councils share will not be pursued.

Key assumptions:

- Each council will continue to improve its performance and service delivery in line with existing strategic and long term plan
- Each council will continue to seek opportunities for ad hoc opportunities for shared services and resource sharing, and
- Strategic issues concerning Greater Hobart will continue to be addressed via MoUs, ad hoc deliberations and Think South (STCA).

Option 2. Amalgamation of Clarence, Glenorchy, Hobart and Kingborough

An amalgamation of the four councils would involve one large metropolitan or capital city council with a total population of around 190,000 residents. This is comparable to Wollongong (192,000), Lake Macquarie (189,000), Bankstown (182,000) or Townsville (174,000).

As a merged entity, the new council could very effectively pursue more consolidated and sustainable patterns of urban growth and strategic opportunities for the capital city. It would be an effective and influential party in relation to other tiers of government. The merged entity will have the ability to plan for growth, enhance the competitiveness of Greater Hobart and improve the liveability of the city and all its residents, enhancing advocacy and promotion of the city.

The merged entity will be able to generate savings by eliminating duplication of services and improved efficiencies. To ensure protection of local representation, the merged entity will make use of wards[4].

[4] An administrative division of a council that typically elects and is represented by a councillor or councillors

The merger is accompanied by a Hobart Capital City Act so that it is most effective in generating wider strategic benefits to the community. The Act will statutorily recognise Greater Hobart as a capital city, and the joint responsibilities of the city and state government to deliver on strategically important objectives, particularly in regards to the development and implementation of an integrated transport, infrastructure and land use plan, economic development plan, waste management strategy, natural hazard management plan and social inclusion plan.

Key assumptions:

- The four councils will merge into a single entity
- Wards or community boards will be implemented initially and phased out over an eight year period
- Implementation of a new governance model and rationalisation of the existing executive management teams
- The total number of elected members will be twelve
- The types and level of services delivered are assumed to remain unchanged
- Elimination of duplication will result in savings, especially in areas such as corporate services (finance, hr, communications, customer services and ICT)
- Economies of scale enable efficiency savings, especially in areas such as management, procurement, business processes, property/accommodation, works, plant & fleet and waste management.
- The introduction of a Hobart Capital City Act.

Option 3. Strategic Alliance between Clarence, Glenorchy, Hobart and Kingborough

The four councils together form the capital city region. This is evidenced by the functional region analysis. For urban regions like Greater Hobart there are strong common interests across municipal boundaries revolving around the management of the urban system; particularly around land use and transport integration, and coordinated service delivery.

Historic attempts of the Greater Hobart councils to collaborate effectively on key strategic issues and metropolitan planning without legislated power necessitates the need for a statutory agreement, with clear roles and responsibilities for both local government and state government, in the form of a Capital City Act.

The strategic alliance option between the four councils will be effected and driven by the introduction of a Greater Hobart Capital City Act that recognises the role and responsibilities of the capital city and ensures commitment by local government and state government to deliver on a range of strategic objectives that are important to the prosperity of the city.

In line with capital city acts in other jurisdictions, the Greater Hobart Capital City Act would recognise the important role the capital plays as a social, economic, civic and cultural centre, plan for balanced and sustainable growth, enhance coordination between state government and local government, progress projects of significance, and improve local governance of the urban functions.

The Act is to ensure all entities work together and deliver on the strategic opportunities. There would not be a new dedicated layer of governance. The individual council entities would continue to exist and so would current systems of local representation.

The strategic alliance would solely focus on strategic opportunities and common interests:

- Regional land use and integrated transport planning
- Capital city economic competitiveness and development
- Regional infrastructure planning
- Environmental and natural hazard management and waste management, and
- Social inclusion and participation.

Opportunities for shared services are likely to arise over time in an ad hoc manner, as a result of the collaboration under the Capital City Act. These activities are however not an integral part of the strategic alliance.

Key assumptions:

- A Hobart Capital City Act will drive collaboration between the four councils
- There will be no new entity or layer of bureaucracy introduced to drive the collaboration
- The councils and state will pool funds for the delivery of strategic plans (overall capital city strategy, land and transport strategy, economic development strategy, environmental management strategy, regional infrastructure strategy and social inclusion strategy), and
- The strategic alliance will only focus on strategic opportunities, and exclude opportunities for shares services and resource sharing which may develop and grow over time.

Option 4. Amalgamation of Clarence, Glenorchy and Hobart

An amalgamation of the three councils would involve a total population of around 151,000 residents. This is comparable to Cairns (156,000), Whitehorse (151,000), Toowoomba (151,000) and Newcastle (148,500).

The merged entity will have the ability to plan for growth, enhance the competitiveness of Greater Hobart and improve the liveability of the city and all its residents, enhance advocacy and promotion of the city. Kingborough is a major growth area for Greater Hobart, and exclusion of this council has the potential to undermine city shaping capabilities and success of planning for more consolidated and efficient urban growth.

The merger is accompanied by a Hobart Capital City Act that recognises the role and responsibilities of the capital city and ensures commitment by local government and state government to deliver on a range of strategic objectives that are important to the prosperity of the city. (Parts of) Kingborough would be incorporated in the Capital City Act.

As per merger of all four councils, the merged entity will be able to generate savings by eliminating duplication of services and improved efficiencies.

Kingborough consists of areas along the Channel and Bruny Island that identify as rural-regional, while other areas like Kingston, Margate and Taroona can be characterised as (sub-)urban. This option allows Kingborough and Huon Valley to seek opportunities for collaboration (shared services) and potentially merger[5].

Key assumptions for the feasibility analysis are:

- Wards or community boards will be implemented initially and phased out over an eight year period
- Implementation of a new governance model and rationalisation of the existing executive management teams
- The total number of elected members will be twelve
- The types and level of services delivered are assumed to remain unchanged
- Elimination of duplication will result in savings, especially in areas such as corporate services (finance, hr, communications, customer services and ICT),
- Economies of scale enable efficiency savings, especially in areas such as management, procurement, business processes, property/accommodation, works, plant & fleet and waste management, and
- The introduction of a Hobart Capital City Act.

[5] The costs and benefits of this have not been modelled as part of this study.

Option 5. Amalgamation of Glenorchy and Hobart

An amalgamation of the two councils would involve a total population of around 94,000 residents. This is comparable to Rockdale (97,340), Ballarat (93,500) and Port Philip (91,000).

As per merger of all four councils, the merged entity will have the ability to plan for growth, enhance the competitiveness of Greater Hobart and improve the liveability of the city and all its residents, and enhance advocacy and promotion of the city. The merged entity will be able to generate savings by eliminating duplication of services and improved efficiencies. Wards or community boards are an important means to ensure ongoing local representation during transition. The merger is accompanied by a Hobart Capital City Act that recognises the role and responsibilities of the capital city and ensures commitment by local government and state government to deliver on a range of strategic objectives that are important to the prosperity of the city.

This option excludes both Clarence and Kingborough which form the key residential growth areas of Greater Hobart. It also excludes substantial growth areas for employment, with significant areas of (vacant) industrial land and the Hobart International Airport being in Clarence.

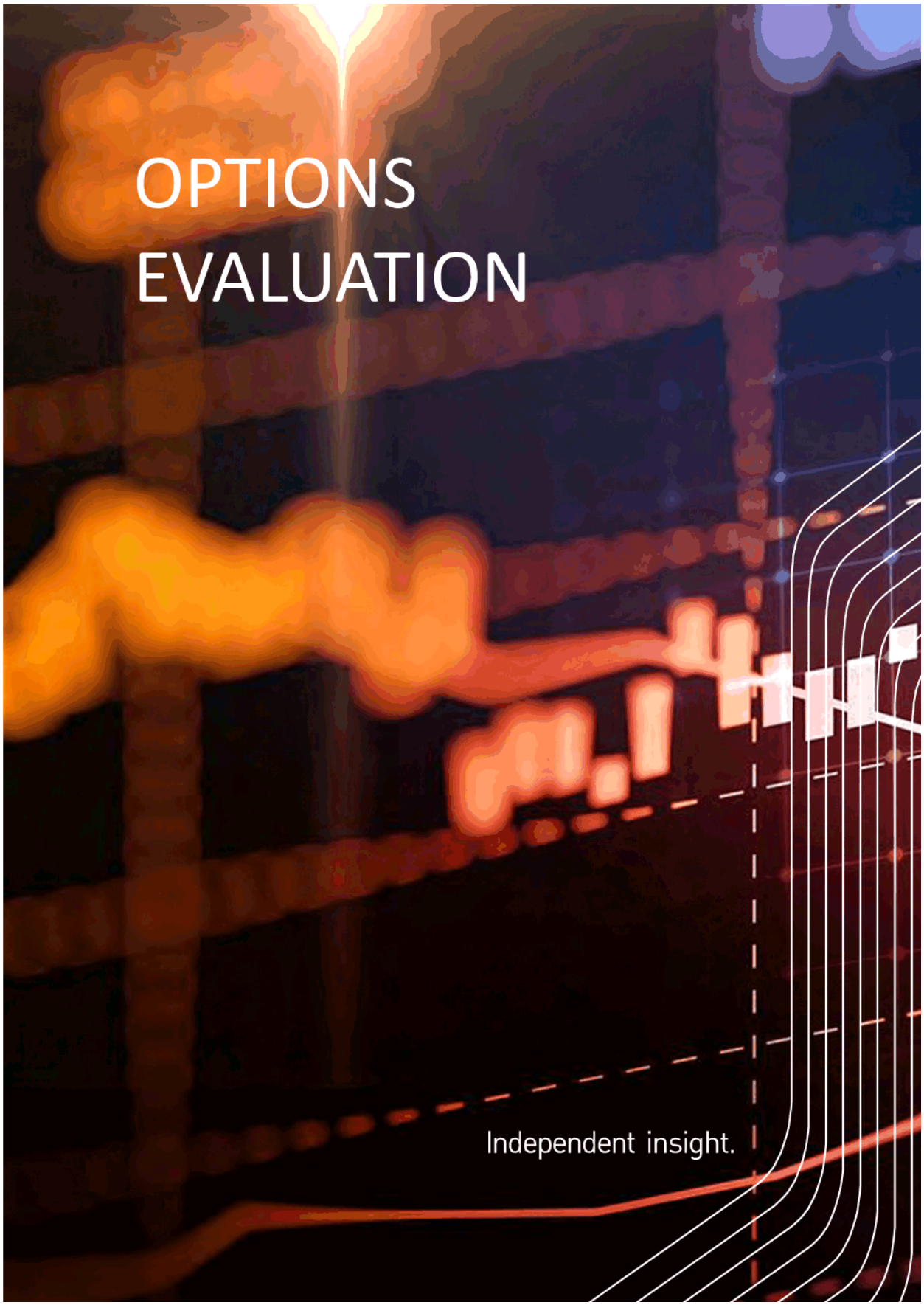
While this option assumes the implementation of a Capital City Act, the likelihood of the Act not being legislated and/or being undermined is much higher than under the other options, as both key growth area councils are not part of the merger.

This option allows Kingborough to progress collaboration and possibly a merger with Huon Valley Council, and Clarence with the south-eastern councils[6]. This would draw their priorities and focus away from the development and growth of a capital city region towards rural-regional issues.

Key assumptions for the feasibility analysis are:

- Wards or community boards will be implemented initially and phased out over an eight year period
- Implementation of a new governance model and rationalisation of the existing executive management teams
- The total number of elected members will be twelve
- The types and level of services delivered are assumed to remain unchanged
- Elimination of duplication will result in savings, especially in areas such as corporate services (finance, hr, communications, customer services and ICT)
- Economies of scale enable efficiency savings, especially in areas such as management, procurement, business processes, property/accommodation, works, plant & fleet and waste management, and
- The introduction of a Hobart Capital City Act.

[6] The costs and benefits of this have not been modelled as part of this report.


OPTIONS
EVALUATION
Independent insight.

3 OPTIONS EVALUATION

The options evaluation comprises two elements:

- A financial feasibility analysis that examines the impact of different options on the operating costs of the councils to estimate the net effect on council financial position compared to the business as usual case;
- A cost benefit analysis that considers the potential impact of each option on the entire community in economic, social and environmental outcomes

The cost benefit analysis goes beyond the financial analysis to assess whether or not progressing each reform option generates a net gain or loss for the community **as a whole** when compared to the standalone option. While there may (or may not) be a direct impact on ratepayers from changes in the Council financial position, ratepayers also benefit from wider benefits should they arise from better managed development, transportation planning, etc.

The financial analysis uses ten years, typical of the time horizon of the different Long Term Financial Projections prepared by Councils. The financial changes tend to be upfront costs, followed by savings over the subsequent years, which effects are largely apparent by year ten. Extrapolation beyond ten years is increasingly uncertain, as the conditions affecting councils in the longer term are bound to change in ways that are hard to anticipate.

While the most important benefits from local government reform are expected to emanate from better decision-making, generating important benefits to the wider community, these develop slowly and develop over the longer term, 20 years of more. Therefore the cost benefit analysis also uses a longer period of 20 years to capture these slowly developing effects.

In order to combine the two elements, the financial performance is also extrapolated to 20 years to complete the analysis. While extrapolation of financial conditions beyond ten years is highly uncertain, this shows the relative effects of financial and strategic effects in the longer term.

3.1 Financial feasibility analysis

Financial costs and savings of the merger options

The financial costs and savings of the mergers arise throughout the period being modelled[7].

In the initial transition period, for each merger option, there are costs associated with creating the single entity (structure, process, policies, systems and branding). Costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council, which has significant cost implications.

Further costs arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils, and are considered to arise as a result of a more complex organisation.

Savings initially arise in the short term through the reduction in the number of senior staff and councillors required in comparison to the councils combined. Natural attrition is initially applied to a

[7] The costs and savings should not be considered in isolation. They form part of the information on which a decision should be made and, in particular, the overall financial performance of the merged council and projected asset expenditure.

merger, with efficiencies meaning that overall staff numbers fall in the short term. Also in the medium and longer term, benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations and the rationalisation of buildings and plant (one off).

The costs and savings arising from the mergers are in comparison to the current operating costs of the combined councils (Option 1, Business as usual).

The merged councils are modelled on the basis of a combined long-term financial plan (LTFP), i.e. where all council costs and revenues set out in the LTFPs are brought together. The agreed base case LTFPs have been used for this process.

The combined councils' LTFPs have then been adjusted by the costs and savings of the merger with Short (1-3 years), Medium (4 – 5 years) and Long Term (6 – 10 years) time horizons. For simplicity, all transitional costs are modelled as taking place in 2018.

The costs and benefits for the possible merger Scenarios are described below.

Governance and executive team

The formation of a new entity is likely to produce some efficiencies as the result of a new governance model and rationalisation of the existing executive management teams. For the purposes of this review, the governance category includes the costs associated with elected members, council committees and related democratic services and processes and the executive team.

Table 8 summarises the expected efficiencies together with the associated timing for governance.

TABLE 8 COSTS AND SAVINGS GOVERNANCE AND EXECUTIVE TEAM

	Staff	Duplicated Services	Elected Members	On Costs
Transition Period	Nil	Nil	Nil	Nil
Short Term (1 to 3 years)	Streamlined Management (General Managers and Directors) Natural attrition (voluntary)	General managers, directors, Mayoral/ GM support, council/committee secretarial support	Reduced councillors and remuneration	Staff associated costs e.g. HR, accommodation, computers, vehicles
Medium Term (3 to 5 years)	Streamlined Management and staff Natural attrition (voluntary)			Staff associated costs e.g. HR, accommodation, computers, vehicles
Long Term (5 years plus)				

Source: Morrison Low 2017

Governance

The formation of a new entity is expected to result in efficiencies resulting from a new governance model and a reduction in the number of existing mayors and councillors. However, this will depend directly on the adopted governance structure including the number of councillors. Estimated governance costs for the new entity have been based on the councillor fees and expenses of comparator councils as reported in the annual report 2015. It is assumed that there would be 12 elected members (for all Scenarios) as this is the largest number of elected members amongst the current councils.

TABLE 9 COSTS AND SAVINGS GOVERNANCE

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Governance savings	$0.45M	$0.90M	$1.27M

Source: Morrison Low 2017

Executive management

The formation of a single entity is likely to result in efficiencies due to an overall rationalisation in the total number of executive managers required at the Tier 1 (General Managers) and Tier 2 (Directors) levels. Revised remuneration packages for the new general manager and directors for the new entity have been informed and assumed to be similar to that of the comparator council executive remuneration packages, given the size and scale, to that of the proposed new entity.

The general managers' total remuneration for the councils was based on the councils' respective annual reports 2014/15, and the amalgamation to a single entity with a single general manager.

In addition, there would be a rationalisation of the existing director positions. Based on the Annual Reports there are 21 such positions across the Councils with the combined remuneration based on the Annual Reports 2014/15 of $3.59M. It is assumed the new entities would all retain four director positions, but with changes to responsibilities. Together with the reduction in general managers, this is likely to have an additional savings as shown below.

TABLE 10 COSTS AND SAVINGS EXECUTIVE MANAGEMENT

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Executive management saving	$1.33M	$2.53M	$3.52M
Senior Staff (excluding GM)	9	16	21

Source: Morrison Low 2017

It is important to note that while ongoing efficiencies have been identified as effective from the short term, there is the one-off cost of redundancies that, in our experience, is a cost incurred during the transition period. This redundancy cost is based on an estimated average of 26 weeks although we note some contracts may have more generous conditions.

Rationalisation of services

Under the proposed merger scenarios, a number of the existing governance services would be duplicated and there would be an opportunity to investigate rationalising resourcing requirements for a single entity and realise efficiencies in the medium term.

As an example, the councils currently have the resources necessary to support the democratic services and processes including council and committee agendas and minutes. Under each scenario, there is likely to be a duplication of democratic resources and the new entity would need to determine the number of resources required to deliver this service. The expected efficiencies relative to this area are realised in the Corporate Services section.

Based on our previous experience, we would expect resource efficiencies in a council of this size of between 25% and 40%, however, having regard to the asset base and size of the comparator councils, we do not expect to realise these full benefits in this merger. The reduction in resources is only likely to occur in the medium term due to the form of employment contracts, however, having said that, there is the potential not to replace positions vacated in the short term if they are considered to be duplicate positions under the new entity (natural attrition policy). The expected efficiencies relative to this area are realised in the Corporate Services section.

We have assumed a 25% reduction in these resources having regard to the comparator council and other similar sized councils to the merged entity. We note, however, that a scenario of no reduction in staff is possible based on supporting evidence from the most recent council mergers in NSW and Queensland. We have modelled a 'reduced efficiencies' scenario where no staff savings occur below tiers 1 &2 in our sensitivity analysis.

Corporate services

In the formation of a new entity, there is likely to be a reduction in staffing numbers across corporate services in the medium term. The corporate services provide most of the organisational and corporate activities such as finance and accounting, human resources, communication, information technology, legal services, procurement, risk management, and records and archive management. Across the councils there is likely to be some element of duplication so there should be efficiency opportunities as it relates to administrative processes and staffing levels.

The potential opportunities for efficiency within the corporate services category are summarised in the table below along with the indicative timing of when the efficiency is likely to materialise.

TABLE 11 COSTS AND SAVINGS CORPORATE SERVICES

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period	Natural attrition (voluntary)	Finance ICT Communications Human Resources Records Customer Services Risk Management			
Short Term (1 to 3 years)	Natural attrition (voluntary)				Staff associated costs e.g. HR, accommodation, computers, vehicles
Medium Term (3 to 5 years)	Streamlined management (Tier 3) Natural attrition (voluntary)				Staff associated costs e.g. HR, accommodation, computers, vehicles
Long Term (6 years plus)					

Source: Morrison Low 2017

Rationalisation of duplicate services

Consistent with the dis-establishment of the councils and the creation of a single entity, there are a number of back office duplicated services that would be replaced, standardised and simplified. The rationalisation and streamlining of back office services means that there would an opportunity to rationalise financial reporting, business systems, administrative processes and staff numbers. Examples for the rationalisation of corporate services include:

- **Finance** - A reduction in finance service costs with the rationalisation of financial reporting and financial planning with a single, rather than two Resourcing Strategies, Long Term Financial Plans, Asset Management Strategies, Workforce Management Plans, Annual Plans and Annual Reports needing to be prepared, consulted on and printed. In addition the centralisation of rates, accounts receivable, accounts payable and payroll, including finance systems will reduce resourcing requirements and costs.
- **Human Resources** (HR) – The size of the HR resource would be commensurate with the number of FTEs in the new entity based on industry benchmarks. The number of HR resources would be expected to reduce proportionately to the reduction in organisational staff numbers.
- **Communications** – The resourcing would be expected to reduce since there would be a single website and a more integrated approach to communication with less external reporting requirements.
- **Customer Services** – No reduction in the 'front of house' customer services have been assumed on the basis that all existing customer service centres would remain operative under a single entity and the existing levels of service would be retained. However, there is potential to reduce the number of resources in the 'back office' such as the staffing of the call centre.

The potential efficiency in the corporate services category is difficult to determine largely due to the fact that ICT accounts for a large cost through the transition into the new entity, both in terms of resources and actual cost. However, it is expected that an ICT solution would be implemented in the medium term and due to existing employment contracts, the corporate service efficiencies would therefore only be realised in the medium term. The assumption underpinning the efficiency for corporate services is a 10%[8] reduction in corporate support personnel. On costs are considered to be included as the figures used are based on total employee costs as reported by the councils.

There is the potential to reduce FTE numbers in the short term through not replacing positions vacated if they are considered to be duplicate positions through the transition and under the new entity (natural attrition policy). Following the end of the natural attrition period redundancies would be applied to reduce staffing levels outlined above.

In order to achieve the opportunities identified there is a requirement for detailed scoping, investigation and ownership to ensure that they are implemented and realised post amalgamation. The development of a benefit realisation plan would quantify the cost of implementing any identified efficiencies and establish when such efficiencies are likely to accrue.

Redundancy costs have been modelled based on an average of 26 weeks, although we note the maximum varies and that employment contract provisions in individual councils may provide for slightly higher redundancy payments.

TABLE 12 COSTS AND BENEFITS RATIONALISATION OF DUPLICATE SERVICES

	Hobart and Glenorch	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy an Kingborough
Corporate Services savings	$3.40M	$3.95M	$4.67M

Source: Morrison Low 2017

Areas for further efficiency

Based on the experience from previous amalgamations in local government, there are other areas where we would expect there to be opportunity to achieve efficiencies. These areas include management, staff turnover, procurement, business processes, property/ accommodation, waste and works units.

TABLE 13 EFFICIENCY SAVINGS

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period					
Short Term (1 to 3 years)	Staff turnover	Property/ accommodation/ Works Units	Printing, stationary, ICT systems/ licences, legal	ICT Benefits	Staff associated costs e.g. HR, accommodation, computers, vehicles
Medium Term (3 to 5 years)	Streamlined management (Tier 3 & 4)	ICT Resourcing	Waste	ICT Benefits	Staff associated costs e.g. HR, accommodation, computers, vehicles
Long Term (5 years plus)					

Source: Morrison Low 2017

[8] Securing Efficiencies from the Reorganisation of Local Governance in Auckland, Taylor Duigan Barry Ltd, October 2010

Management

The extent of efficiencies for Tier 3 and Tier 4 is directly dependent on the organisational structure of the new entity, types of services and the manner in which these services are to be delivered in the future, i.e. delivered internally or contracted out. It is also affected by the relative classification of senior staff as Directors or Managers.

The Auckland amalgamation resulted in an FTE reduction of almost 60%[2] across the total Tier 1 through to Tier 4 positions. In addition to the Tier 1 and Tier 2 efficiencies, there is further opportunity for efficiencies in regard to the Tier 3 and Tier 4 managerial positions although these would only be realised in the medium term.

No allowance for Tier 3 and 4 savings have been included to date as this is difficult to estimate without a full review of organisational structure, position descriptions and a profile of Tier 3 and 4 salaries from each councils.

Staff turnover

While the industry average turnover is approximately 12%[9] and, on the basis that the new entity adopts a 'natural attrition' policy not to fill positions in the short term, there is an estimated annual efficiency based on applying a modest 1.5% natural attrition.

TABLE 14 STAFF TURNOVER

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Staff turnover	$6.17M	$7.3M	$8.36M

Source: Morrison Low 2017

ICT benefits

Without a full investigation into the current state of the councils' ICT infrastructure and systems, and without an understanding of the future state, the ICT benefits cannot be quantified at this stage. However, benefits would include improved customer experience, operational cost savings and reduced capital expenditure, higher quality of IT services, and increased resilience of service provision. It is also necessary to model a value for the benefits to balance the costs that have been allowed for in the transition.

The operational cost savings and reduction of capital expenditure would be as a direct result of rationalising the number of IT systems, business applications, security and end user support from the councils to a single entity. The cost of IT and the number of staff resources required to support it would be expected to decrease over time. FTEs are assumed to reduce over time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the councils, the amount of efficiency is unable to be determined at this time. An allowance of 5% of the IT investment has been allowed for, arising in the long term after the systems are implemented.

TABLE 15 ICT BENEFITS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
ICT Benefits (from 2021)	$0.38M	$1.27M	$1.28M

Source: Morrison Low 2017

Materials and contracts

The opportunity for efficiencies in procurement is created through the consolidation of buying power and the ability to formalise and manage supplier relationships more effectively when moving from

[9] Tasmanian Local Government Workforce Report 2014

multiple councils to one. An estimate needs to take into account that the councils may currently engage in some collective procurement.

The increased scale and size of the infrastructure networks managed by the merged council could, in our view, lead to opportunities to reduce operational expenditure through making better strategic decisions (as distinct from savings arising from procurement).

Based on the analysis during the project and our experience the combined savings have been modelled in the short term at 1% of procurement costs for the first three years.

TABLE 16 MATERIAL AND CONTRACT SAVINGS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Materials and contracts savings	$0.49M	$0.98M	$0.98M

Source: Morrison Low 2017

Properties

There is an opportunity to rationalise and consolidate the property portfolio through assessing the property needs of the new entity and disposing of those properties no longer required for council purposes. The rationalisation of buildings in the first instance is likely to be corporate accommodation associated with the reduction in staff, other obvious areas would include the work depots (Appendix 6.3).

Under the merged council scenarios are assumed that the councils would dispose of 5% of the building assets in the medium term. In the longer term, savings in properties are achievable but should be carried out in a more strategic manner across the combined entity. We note, however, that the addition of the larger more dispersed geographic of Kingsborough is unlikely to generate further savings through property rationalisation.

TABLE 17 PROPERTY SAVINGS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Property savings	$0.48M	$1.30M	$1.30M

Source: Morrison Low 2017

Works units

Staff

Based on our experience of reviewing a large number of works units across NSW, we have found significant savings in all organisations that we have reviewed. As such, it is reasonable to assume that a reduction in staff in the order of 5% across the works areas will be easily achieved in the medium term to reflect the duplication of services across the depots. Again we note, however, that the addition of Kingsborough is unlikely to generate further savings through rationalisation of works units.

TABLE 18 WORK UNITS STAFF SAVINGS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Works Unit staff savings	$1.82M	$2.25M	$2.25M

Source: Morrison Low 2017

Redundancy costs have been modelled for all works staff based on an average of 26 weeks, although we note that employment contract provisions in each council may provide for higher redundancy payments.

Following the end of the natural attrition period, redundancies would be applied to reduce staffing levels to those identified above.

Plant and Fleet

Based on our experience of reviewing a large number of works units across NSW, most councils have significantly more plant and equipment than is reasonably required to undertake their day to day functions. As such, it is reasonable to assume that a reduction in plant and fleet in the order of 5% would be achievable should there be an amalgamation of councils. The addition of the larger more dispersed geography of Kingsborough is unlikely to generate further savings over and above the two and three council mergers.

TABLE 19 PLANT AND FLEET SAVINGS – ONE OFF

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Plant and Fleet one off savings	$0.47M	$0.91M	$0.91M

Source: Morrison Low 2017

Services and service levels

Typically, merged councils see an increase in staff associated with rises in services, service levels and the formation of larger more complex organisations. Research conducted for the Independent Review Panel noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together[10] and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 2% increase in staff from year 4 onwards (i.e. after the period of natural attrition).

Transition costs

The formation of the new entity from the current state will require a transition to ensure that the new entity is able to function on Day 1. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co.[11] for the proposed Wellington reorganisation.

In the transition to an amalgamated entity, there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from Day 1 with minimal disruption to customers and staff.

TABLE 20 TRANSITION COSTS

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Transition costs	$5.1M	$6.6oM	$7.75M

Source: Morrison Low 2017

Financial costs Option 3 – Strategic Alliance.

The financial costs of the strategic alliance involve the costs associated with developing city-wide plans for land use and transport, infrastructure, economic development, strategic waste management and natural hazard management.

The costs associated with the Strategic Alliance are assumed to be $1 Million over two years to enable the strategic plans to be developed. Ongoing costs and in-kind support are required and assumed to be similar to the costs currently involves with regional collaboration, with the Alliance replacing these costs (no net annual increase for collaboration).

[10] Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting

[11] Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

3.2 Financial analysis results

10 Year Timeframe

The NPV[12] of the costs and savings over the period being modelled (to 2026[13]) have been calculated as follows:

- **Option 2.** A merger of Hobart City, Clarence City, Glenorchy City and Kingborough Councils is expected to produce $16.0 million in net financial costs
- **Option 3**. A strategic alliance in the form of a Capital City Act is expected to produce $0.9 million in net financial costs
- **Option 4**. A merger of Hobart City, Clarence City and Glenorchy City Councils is expected to produce $5.3 million in net financial costs
- **Option 5.** A merger of Hobart City and Glenorchy City Councils is expected to produce $20.3 million in net financial savings.

The two city merger option saves money while the wider mergers show a net cost. The table below shows the breakdown of the net results by line item (Table 21). The key driver for the results for option 2 and 4 are the costs associated with staff.

This is largely because the staff costs for Clarence are particularly low compared to Hobart and Glenorchy, both staff numbers and average wages. The assumption is that staffing patterns will tend to skew toward the highest level within the merged entity. This would raise the employment costs for the Clarence staff in the merged entity, and combined with the high initial IT costs exceed the anticipated savings. This is also true for the four council merger.

TABLE 21 FINANCIAL IMPACTS BY LINE ITEM, TEN YEAR TIMEFRAME

Impact (millions of dollars, present day values) Negative values = costs	**Option 2 – Merger 4 councils**	**Option 3 – Strategic alliance**	**Option 4 – Merger 3 councils**	**Option 5- Merger two councils**
Transitional Costs	-$8.5	$0	-$4.9	-$5.4
Staff	-$17.7	$0	-$4.5	$18.3
IT	-$17.1	$0	-$17.1	-$5.0
Governance	$10.1	$0	$6.7	$3.1
Materials and contracts	$15.3	$0	$12.8	$8.4
Assets	$1.8	$0	$1.8	$0.8
Net present value, all	**-$16.0**	**-$0.9**	**-$5.3**	**$20.3**
Annualised impact per ratepayer (cost or savings), ten years	$25	$1	$10	$60

Source: Morrison Low 2017

However, these financial costs are very small in percentage terms. The savings from the Hobart Glenorchy merger represent about 1% of the total budget for these cities. The costs for Hobart-Glenorchy-Clarence merger represent less than 0.2% of these cities combined budgets. There are likely to be other influences over these time frames that have far more impact.

Sensitivity analysis shows that if the merged entity were able to control staff costs to the average of the four councils, there would be a substantial net financial saving in all merger options, ranging from $20 M to nearly $50 M.

[12] Using a real discount rate of 3.0%
[13] 2026 is the period being modelled to match the time covered by all Council LTFPs

Sustainability indicators

The results of the reform options in relation to the sustainability indicators (see appendix, Section 6.4 for an overview of the indicators) are:

- **Option 2.** A merger of Hobart City, Clarence City, Glenorchy City and Kingborough Councils meets five of the six sustainability benchmarks, failing only to meet the asset sustainability ratio.
- **Option 3**. A strategic alliance in the form of a Capital City Act was not modelled against the sustainability indicators. However, the baseline analysis in Stage 1 (standalone councils) shows that no council meets the forecast benchmark in 2026. Only Hobart is expected to meet the benchmark in most years to 2026.
- **Option 4**. A merger of Hobart City, Clarence City and Glenorchy City Councils meets five of the six sustainability benchmarks, failing only to meet the asset sustainability ratio.
- **Option 5.** A merger of Hobart City and Glenorchy City Councils meets five of the six sustainability benchmarks, failing only to meet the asset sustainability ratio.

The merged entities would continue to perform well in terms of financial sustainability with each merger option achieving five of the six sustainability factors (Table 22). As part of the no reform option (Option 1), the stage 1 baseline analysis shows broadly similar performance to 2026.

TABLE 22 MERGER OPTIONS PERFORMANCE AGAINST SUSTAINABILITY INDICATORS

	Underlying Operating result	Operating surplus ratio	Net financial liabilities	Net financial liabilities ratio	Asset sustainability ratio	Asset consumption ratio
Option 2 -Merger 4 councils	✓	✓	✓	✓	✗	✓
Option 4 -Merger 3 councils	✓	✓	✓	✓	✗	✓
Option 5 –Merger 2 councils	✓	✓	✓	✓	✗	✓

Source: Morrison Low 2017

Sensitivity testing

The table below demonstrates the sensitivity of the modelling to different discount rates, and how the net benefit or cost varies. The discount rate scenarios are applied to three alternative projections:

- The 'with efficiencies' scenario assumes the merged council is willing and able to make efficiencies outlined earlier and in Appendix 6.3. This scenario is the basis of this report (pink cells) and shows the effects of changing the discount rate[14] on this base case.
- The second scenario is that the mergers are unable to generate further savings below tier one and two. This was a common outcome of the mergers in NSW in 2004 and Queensland in 2009. We note no data is available from the current NSW mergers as non-contract staff have three years employment protection.
- The third scenario tested is where mergers are able to generate savings i.e. 'with efficiencies' and staff salaries are able to be harmonised to the average salary across the councils (not the highest).

The results in Table 23 demonstrate how variable the results are to key policy decisions of the new council post mergers.

[14] The 1% real discount rate is close to the 3% nominal discount rate assumed by KPMG in their report on the South East Councils merger assessment.

TABLE 23 OPTION TESTING TO DIFFERENT SCENARIOS POST MERGERS

	Mergers with efficiencies			Mergers with no staff savings below tier 1 & 2			Mergers with efficiencies and salary harmonisation to average salary costs		
Discount rate	1%	3%	6%	1%	3%	6%	1%	3%	6%
Option 2 - merger 4 councils	-$15.7	-$16.0	-$16.3	-$44.1	-$43.0	-$40.0	$57.4	$48.8	$38.3
Option 4 - merger 3 councils	-$4.0	-$5.3	-$6.7	-$29.2	-$28.4	-$27.1	$25.0	$20.6	$15.3
Option 5 – merger 2 councils	$23.3	$20.3	$16.5	$1.5	$0.3	-$1.1	$28.6	$25.0	$20.5

Note negative numbers are costs. All results are the NPV over 10 years at a real 3% discount rate.
Source: Morrison Low 2017

Implications of the financial analysis

The analysis presented in this section has the following implications:

- Only one of the options (Option 4 – merger of Hobart City and Glenorchy City Councils) demonstrates consistent financial benefits over a 10 year period under most circumstances
- All merger options demonstrate financial benefits over a 10 year period if salaries can be harmonised to average salary costs
- Financial benefits disappear if savings through staff reduction cannot be achieved, and
- All merger options meet five of the six sustainability benchmarks measured by 2026.

3.3 Wider cost benefit analysis

Expected improvements in metropolitan outcomes

The participating councils believe that the reform options will help improve the management of Greater Hobart as an urban and economic system. These beliefs reflect the experience in other states, i.e. where integrated land use and transport plans and economic and tourism development strategies are developed at a metropolitan level, and which can generate improved outcomes as per Table 24.

TABLE 24 IMPROVED METROPOLITAN OUTCOMES GENERATED BY REFORM

Improved urban/ economic outcomes	Key performance indicators
1. A more sustainable metropolitan area through the progression of a more compact, multi-nodal spatial form of urban development	– New dwellings in infill vs. greenfield locations – New dwelling mix (attached vs. detached) – New dwelling mix environmental sustainability (energy/ water consumption)
2. A more efficient transportation system which better supports urban development and reduces car dependency and congestion costs	– Travel times to/ from work – Travel distances to/ from work – Travel mode to/ from work
3. A more productive economic base given the agglomeration economies that result from 1 and 2.	– Effective density of economic activity/ employment – Potential employees within 30 mins travel
4. A more effective tourism promotion and development strategy	– Number of interstate tourists – Number of international tourists
5. A more resilient pattern of urban development as natural hazard areas are better managed/ and damages as a result of extreme events are reduced	– New dwellings in hazardous areas (e.g. floods, fires) – New business/ job creation in hazardous areas
6. A better coordination and sequencing of social infrastructure and services delivery	– Improved community wellbeing*

*the financial analysis forecasts potential service delivery efficiencies. These efficiencies can either be generated or reinvested into improved social infrastructure/ service delivery.

Calibration of expected improvements in metropolitan outcomes

The degree to which these improved outcomes are generated by each of the reform options will vary in terms of the 'certainty' (or consistency of decision making) with which the outcomes will result and the

'scope' of the urban area that will enjoy those outcomes. Consequently, the improved outcomes will be bookended by the merger of all four councils, where the most improved outcomes can be expected, and the standalone option, which represents outcomes as per their existing trends.

Table 25 summarises the assumptions around the degree of certainty and size relevant to each of the reform options.

TABLE 25 CALIBRATION OF IMPROVED METROPOLITAN OUTCOMES BY REFORM OPTION

	Option 1 Standalone	Option 2 Merger 4 Councils	Option 3 Strategic Alliance 4 Councils	Option 4 Merger 3 Councils	Option 5 Merger 2 Councils
Certainty (Consistency of participating council decisions)	Nil (0%)	All (100%)	Most (75%)	All (100%)	All (100%)
Scope (Urban area covered by participating councils*)	Nil (0%)	All (100%)	All (100%)	Most (68%)	Some (34%)
Rate of improvement in metropolitan outcomes**	0%	100%	75%	68%	34%

*Urban area is the modelled population and employment by Council in 2037.
** Based on the rate of projected population and employment growth, based on Treasury population projections and employment projections as used in the Greater Hobart Travel Demand Model.

The benefits identified in the following analysis are based on certain assumptions about the way in which the pattern of development in the participating councils will be affected, as described in detail in the following sections. The benefits estimated assume that the policies with these effects are in fact adopted, an outcome which is not a foregone conclusion. The size of the benefits will ultimate depend on whether the pattern of actual development follows this course or some other.

Incremental impacts (wider costs and benefits)

From a social welfare perspective, the improved metropolitan outcomes described in Table 24 will result in the following impacts:[15]

Change in **accommodation resources.** Accommodation resources effectively include the land, capital and labour resources required to house the regional population under each of the reform options. It encapsulates the overall area of land consumed under each reform option, as well as the changing value of this land footprint given the development enabled and the relative amenity levels conferred in various areas of Greater Hobart. It also includes the relative cost of construction required to deliver the housing forms envisaged in each of the alternative development patterns enabled.

Change in the **infrastructure costs** required to service the new mix of dwellings (type, location). This relates to off-site infrastructure servicing costs and will therefore reflect the potential to utilise excess capacity, where it exists, in the existing infrastructure network for infill dwellings. Greenfield dwellings, on the other hand, will require new infrastructure investment for their servicing.

Change in the **environmental performance** of the new dwelling mix provided, reflecting the degree to which detached dwellings consume energy and water resources in comparison to semi-detached and attached dwellings. These changes will need to account for the number of persons accommodated in each dwelling.

Change in the **transport costs** linked with the spatial form of development conferred. This will reflect the distances and times endured by the population in accessing jobs and services, as well as the mode by which they travel. Business transport costs are also relevant, particularly the costs of accessing suppliers

[15] These impacts will be recorded as costs if the aggregate impact is negative or benefits if the aggregate impact is positive.

and customers. The degree to which individuals use active forms of travel (e.g. walking, cycling) in going about their lives is relevant too, especially if the change promoted impacts on health levels.

Change in **agglomeration economies** which will be reflected in the productivity of the labour force depending on the effective density within which workers operate, i.e. given the labour force specialisation, knowledge spillovers and competitive tension that density engenders. The term 'effective density' is used as agglomeration economies relate to the actual location of activity/ jobs as well as the relative ease with which surrounding activities/ jobs can be accessed.

Change in **tourism yields** generated by local businesses as more interstate and international tourists are attracted to Greater Hobart and/ or the length of their stay (spend) is extended.

Change in the **damages** caused by natural hazards, including the costs of asset replacement and the costs of lost production, as well as the personal injury and trauma costs associated with hazardous events. These costs will vary depending on the degree urban development locates in hazardous areas.

The aforementioned impacts are over and above the financial impacts estimated earlier.

Quantification assumptions

The key assumptions invoked in the modelling are summarised in Table 26. The main assumption is that new dwellings in infill areas increase from 16% to 25%, whereas new dwellings in greenfield areas decrease from 19% to 10%, as a result of improved land use and transport planning.

TABLE 26 MODELLING ASSUMPTIONS

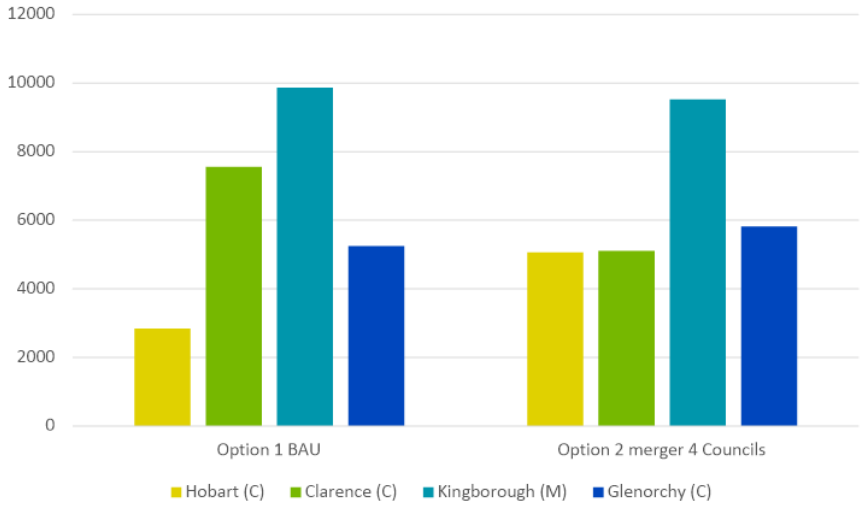
Key performance indicator	Option 1 Business as usual	Option 2 – Merger 4 councils
New dwelling growth*		
– Infill	16%	25%
– Greenfield	19%	10%
– Rest of City	65%	65%
New dwelling growth*		
– Detached	79%	68%
– Semi-attached	9%	11%
– Attached	12%	21%
New jobs growth*		
– Infill	33%	62%
– Greenfield	35%	11%
– Rest of City	32%	28%
Travel patterns**		
– Average journey to work travel distance	10.74 km	10.64 km
– Average journey to work travel time	14.4 Mins	13.6 Mins
– Average travel speed	53.5 km/h	55.65 km/h
Journey to work travel mode**		
– Car	80.0%	79.5%
– Public transport	4.3%	4.4%
– Active travel	15.7%	16.1%
Tourists visitation^		
– Average Annual Growth Rate (interstate tourists)	2.64%	2.76%
– Average Annual Growth Rate (international tourists)	4.85%	5.06%
– Average Annual Growth Rate (total)	3.34%	3.50%

Source:
*Option 1 sourced from Greater Hobart Travel Demand Model. Option 2 developed by SGS.
**Results generated by Greater Hobart Travel Demand Model.
^Option 1 sourced from Tourism Research Australia. Option 2 developed by SGS.

The analysis does not assume an increased rate of urban development in Greater Hobart, i.e. a higher population growth rate. Rather it assumes that the reform options have the ability to change the location and servicing of urban development.

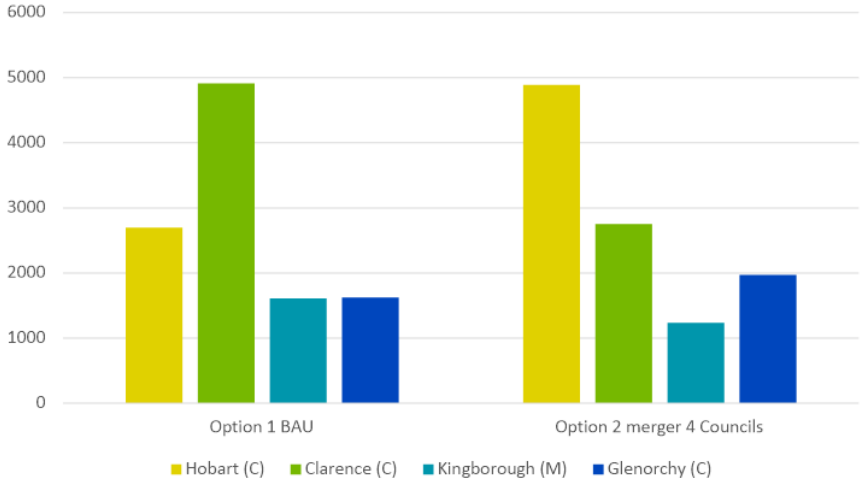
The figures overleaf highlight the differences in forecast population and employment growth under the reform options which are assumed to bookend the analysis, i.e. Option 1 BAU and Option 2 merger four councils.

FIGURE 3 POPULATION GROWTH DISTRIBUTION BY LGA TO 2037



Source: SGS Economics and Planning 2016

FIGURE 4 JOBS GROWTH DISTRIBUTION BY LGA TO 2037



Source: SGS Economics and Planning 2016

Quantification techniques & data inputs

The key techniques and data sources used to model each of the impacts are summarised in Table 27. More detail is provided in the appendix (Section 6.4).

TABLE 27 IMPACT QUANTIFICATION TECHNIQUES & DATA

Impact	Technique	Data inputs
Accommodation resources	Residual land value (RLV) techniques used to model how changing dwelling mix, and infill vs greenfield development impacts on underlying land values.	– Dwellings by location (travel zone) – Dwelling sales value by location – Dwelling construction costs.
Infrastructure costs	Review of published/ available literature	– Dwellings by location (travel zone) – Infrastructure costs per dwelling (infill vs greenfield).
Environmental performance	Review of published/ available literature	– Dwellings by type (detached vs. semi-attached vs. attached) – Energy & water consumption by dwelling type.
Transport costs	Utilisation of Greater Hobart Travel Demand Model (GHTDM) to estimate travel outcomes including travel volumes, times and distances by mode. Parameter values published by ATAP (2016) are then used to monetise these outcomes under the banners of: – Travel time costs – Vehicle operating costs – Accident costs – Environmental externalities.	– Dwellings by travel zone – Jobs by travel zone – Business as usual travel time matrix – Business as usual transport network.
Agglomeration economies	– Calculation of Greater Hobart effective job density (EJD) matrix using data inputs for transport costs above. – Regression of labour productivity (by industry) against EJD matrix for Greater Hobart. – Estimate labour productivity impacts using reform-based EJD matrix.	– Value added (VA) per worker by industry – Elasticity of VA per worker with Effective Job Density index.
Tourism yields	Utilisation of published industry profitability rates to derive the profit generated by an assumed improvement in tourist spending.	– Existing tourist numbers, lengths of stay and spending by visitor origin – Existing rates of tourism industry profitability.
Natural resource and hazard benefits – reduced hazard damages	Not quantified. Nonetheless, this impact is expected to be large in scale given the likely costs linked with specific hazardous events and the likely increasing risk of these events. Natural resources, most importantly the River Derwent and Mount Wellington, cross municipal boundaries. As a merged entity or when collaboration under a Capital City Act, there will be an increased ability to collect relevant data, develop knowledge, identify and manage hazardous areas and develop integrated plans. The outcomes of improved management of natural hazards will result in reduced exposure of life/ assets to damaging extreme events.	
Improved service delivery	Not quantified separately. The financial modelling assesses potential service delivery cost efficiencies assuming services remain constant throughout the options. However, if these efficiencies are reinvested into improved service delivery, substantial socio-economic benefits are likely to be generated.	

Performance results

Based on the conceptualisation of impacts, the assumptions invoked, and the techniques and datasets utilised, SGS has assessed the costs and benefits over the long term (20 years). This lifetime reflects the long term nature of the various impacts that can be promoted by improved urban and economic management. The results have been generated using discounted cashflow techniques, which use a real discount rate of 3% to convert future costs and benefits into present day dollar values (Table 27).

TABLE 27 WIDER COST BENEFIT MODELLING RESULTS (20 YEAR ANALYSIS)

Impact (millions of dollars, present day values)	Option 2 Merger Four Councils	Option 3 Strategic Alliance Four Councils	Option 4 Merger Three Councils	Option 5 Merger Two Councils
Transport cost savings	$274.9	$206.2	$186.9	$93.5
Tourism yield improvements	$68.0	$51.0	$46.2	$23.1
Infrastructure cost savings	$30.6	$22.9	$20.8	$10.4
Active transport health benefits	$12.0	$9.0	$8.2	$4.1
Environmental savings	$7.7	$5.8	$5.2	$2.6
Agglomeration economies	-$0.3	-$0.2	-$0.2	-$0.1
Total	**$392.9**	**$294.7**	**$267.1**	**$133.6**

Source: SGS Economics and Planning 2017

As with the financial savings discussed in Section 3.2, these improvements in metropolitan outcomes are uncertain, and depend on the choices made and actions taken by the new entity, and indeed, the community as a whole. While the actual outcome may be different from that modelled, the potential for large gains exists and is most likely to be achieved with coordinated action under a larger local government entity.

Also, the community benefits are mostly generated over the medium to long term and the benefits are limited over the first ten years as is illustrated in the table below, when compared to Table 27.

TABLE 28 WIDER COST BENEFIT ANALYSIS MODELLING RESULTS, SHORTER TERM TIMEFRAME (10 YEARS)

Impact (millions of dollars, present day values)	Option 2 Merger Four Councils	Option 3 Strategic Alliance Four Councils	Option 4 Merger Three Councils	Option 5 Merger Two Councils
Transport cost savings	$37.2	$27.9	$25.3	$12.7
Tourism yield improvements	$8.2	$6.2	$5.6	$2.8
Infrastructure cost savings	$12.2	$9.1	$8.3	$4.1
Active transport health benefits	$2.0	$1.5	$1.4	$0.7
Environmental savings	$1.4	$1.2	$0.9	$0.5
Agglomeration economies	-$0.1	-$0.1	-$0.0	-$0.0
Total	**$60.9**	**$45.8**	**$41.5**	**$20.8**

Source: SGS Economics and Planning 2017

Combining improved metropolitan outcomes with the financial feasibility analysis

The analysis of the wider benefits uses a longer period of 20 years for the calculation of costs and benefits given the more slowly developing nature of these effects. The financial feasibility presented in Section 3.2 was calculated over a ten year period, consistent with of the LTFP period provided by most of the participating councils. This financial analysis was extended to 20 years to allow the two components to be combined on a like for like basis.

We do not presume that councils, or the priorities and constraints under which they operate, will remain static into the future and recognise that any resulting modelling over such a long period is only broadly indicative. This concern aside, for the purposes of providing a 20 year comparison, we have extrapolated the financial costs and benefits, with the following NPV projects:

- **Option 2.** A merger of Hobart City, Clarence City, Glenorchy City and Kingborough Councils is expected to result in $10.0 million net financial **costs**
- **Option 3**. A strategic alliance in the form of a Capital City Act is expected to result in $0.9 million net financial **costs**

- **Option 4**. A merger of Hobart City, Clarence City and Glenorchy City Councils is expected to produce $2.8 million in net financial **costs**
- **Option 5.** A merger of Hobart City and Glenorchy City Councils is expected to produce $32.8 million in net financial **savings**.

These costs and savings should be seen in context of the timeframe over which they arise and the overall financial performance of the merged council and, in particular, the need to increase asset expenditure to meet the asset sustainability ratio, whether merged or under business as usual as outlined below.

TABLE 29 COMBINED FINANCIAL AND WIDER COST BENEFIT RESULTS, 20 YEAR TIMEFRAME

Impact (millions of dollars, present day values)	Option 2 Merger Four Councils	Option 3 Strategic Alliance Four Councils	Option 4 Merger Three Councils	Option 5 Merger Two Councils
Financial costs/benefits, (20 yrs)	-$10	-$1	-$3	$33
Wider costs/benefits	$393	$295	$267	$134
Net present value total (NPV)	**$383**	**$294**	**$264**	**$166**
NPV/ratepayer - benefit	**$391**	**$300**	**$333**	**$321**

Source: SGS Economics and Planning 2017

It can be readily seen that the wider benefits are vastly larger than the direct financial costs calculated earlier. The underscores the message that the greatest gains from mergers are not the operational savings for Council finances but the potential benefits of improved urban management and development.

The value per ratepayer is estimated to be greatest per ratepayer for the four councils merger, but is generally similar across the four options. This reflects the fact that while the total NPV increases, it is because the scope is wider and more ratepayers are being included.

As suggested earlier, the wider benefits especially accrue over the longer term. The table below shows the results of the combined financial and wider costs and benefits analysis over the shorter, ten year timeframe. The results show, even over the shorter timeframe there is a net community benefit associated with reform, for all options.

TABLE 30 COMBINED FINANCIAL AND WIDER COST BENEFIT RESULTS, SHORTER 10 YEAR TIMEFRAME

Impact (millions of dollars, present day values)	Option 2 Merger Four Councils	Option 3 Strategic Alliance Four Councils	Option 4 Merger Three Councils	Option 5 Merger Two Councils
Financial costs/benefits, (10 yrs)	-$16	-$1	-$5	$20
Wider costs/benefits	$61	$46	$42	$21
Net present value total (NPV)	**$45**	**$45**	**$36**	**$41**
NPV/ratepayer - benefit	**$46**	**$46**	**$45**	**$79**

Source: SGS Economics and Planning 2017

The final reported NPV does not include some benefits arising where they were not quantified and so arguably may be conservative.

Based on the results generated:

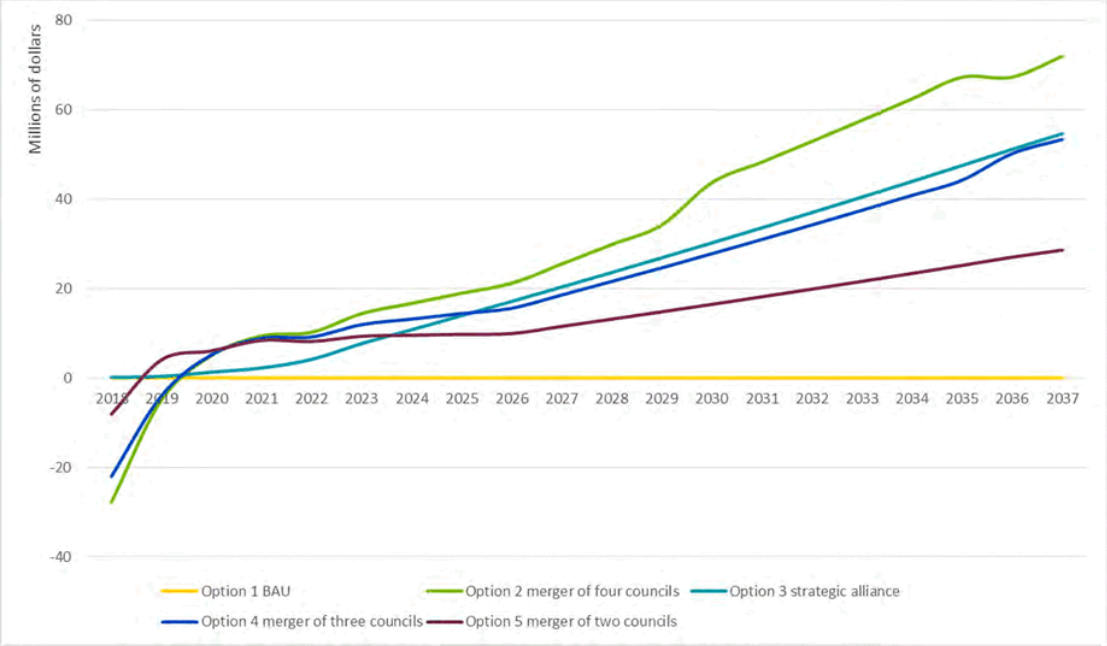
- Option 2, which involves the merger of Clarence City, Glenorchy City, Hobart City and Kingborough Councils has the highest NPV and highest NPV/ratepayer of all the project options. This is despite this option having the highest financial costs of any of the options.

The strategic benefits of being able to plan for the entirety of metropolitan Hobart over time outweighs these financial costs.

- Option 3, the strategic alliance, has the second highest NPV but the lowest per ratepayer. This option performs well due to having the second highest strategic benefits and minimal start-up financial costs, with the operational costs of a Capital City Act largely being absorbed by existing council resources.
- Option 4, the merger of Clarence City, Glenorchy City, and Hobart City Councils, generates the third highest NPV and second highest NPV/ratepayer. This option has a lower financial cost compared to Option 2, however only experiences a portion of the wider strategic benefits of Option 2, due to no longer presiding over and being able to plan strategically for the forecast growth in population and jobs in the municipality of Kingborough.
- Option 5, the merger of Glenorchy City and Hobart City Councils is the only option to generate financial savings from a merger in the financial analysis. However, the wider strategic benefits of this option are diminished by not having the ability to plan and manage for much of the Greater Hobart urban area. As a result the NPV for this option is the lowest and the NPV per ratepayer the second lowest.

The annual rate at which overall costs and benefits are generated are summarised in Figure 5.

FIGURE 5 ANNUAL BENEFITS OF REFORM OPTIONS (2018-37)

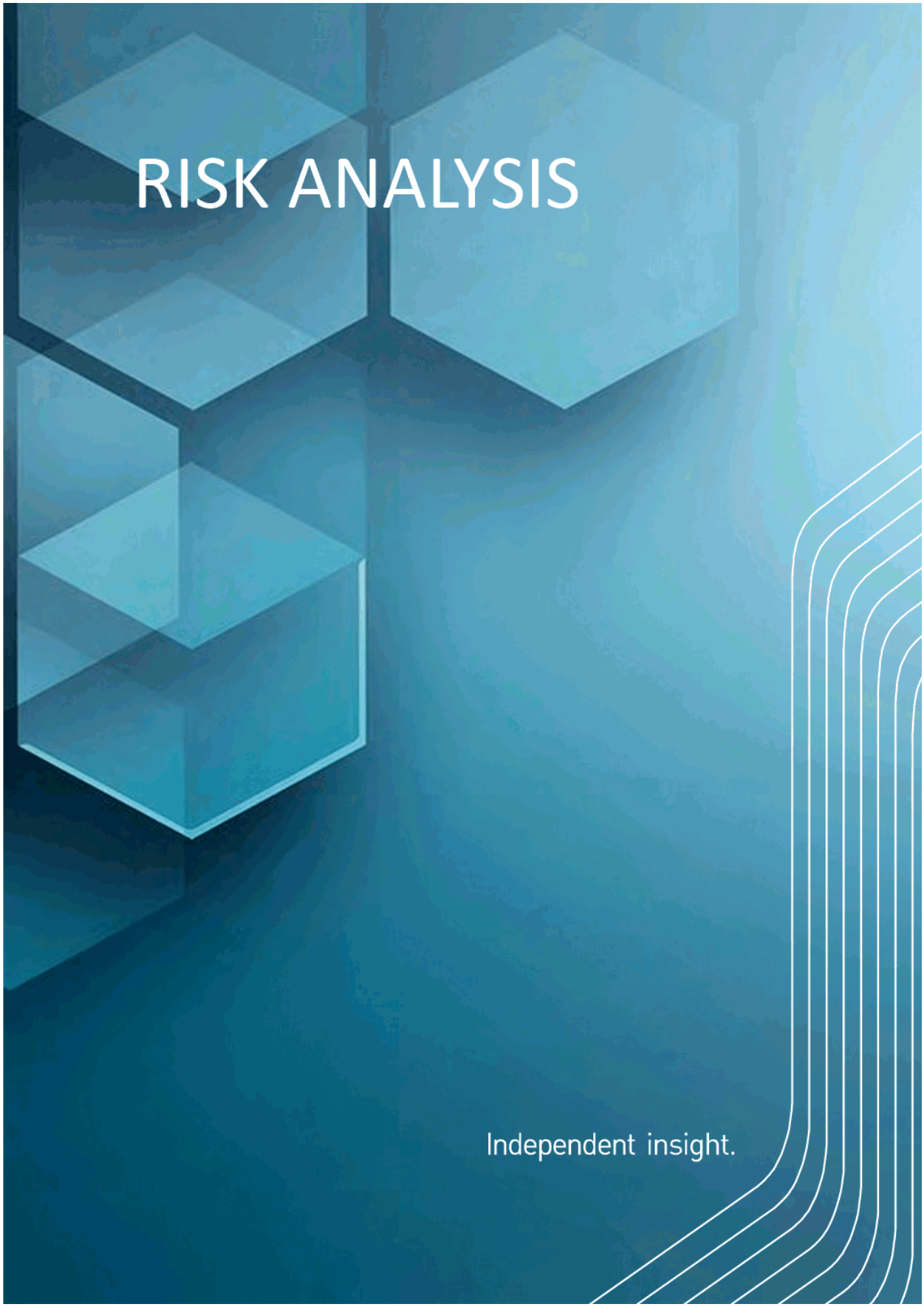


Source: SGS Economics and Planning 2017

In the initial period of the analysis the financial costs of mergers are borne by the councils, leading to the annual value of the three merger options to be negative in 2018. Without transition assistance this may result in the need to increase rates in some options. From around 2020 the initial transition costs have been accounted for, and the benefits begin to flow. It was assumed in the modelling that by 2022, or five years after the initiation of mergers and the implementation of a Capital Cities Act, that only 10% of the expected change to the urban form would be achieved, with the majority of the changes occurring from 2023 onwards.

The merger of Glenorchy City and Hobart City Councils is slightly different in that this option experiences financial savings, so initially this is the best performing Option (in 2019), however over time this option is unable to compete with the other options in terms of the annual strategic benefits generated.

Once the mergers have matured and the strategic benefits begin to be realised, the annual benefits in Options 2 and 4 begin to increase. From 2027 onwards, through to the end of the analysis period in 2037, Option 2 is the best performing option, followed by option 3 and option 4. This can be attributed to Option 2 resulting in a single Greater Hobart Council that has the capacity to plan for and develop the entirety of Greater Hobart with greater cohesion and with improved decision making; this allows Option 2 to reap the full suite of strategic benefits.


RISK ANALYSIS
Independent insight.

4 RISK ANALYSIS

A risk management analysis is exhaustive by intent. It attempts to identify all realistic risks. It seeks to rank them according to likelihood and impact. It starts to put in place structures and plans that respond to risks effectively. But it does not attempt to eradicate risks and delete them from the plan. On the contrary, it seeks to put in place effective structures to monitor risks so that they can be predicted and ameliorated. Many risk responses will continue to be a work in progress.

Local government reform intends to generate a range of financial savings and, possibly more important, wider social, economic and environmental benefits to the community; the constituents on whose behalf councils operate.

It is important to note that it is not only reform that carries risks. Doing nothing (i.e. business as usual) carries risks that may be just as relevant and far reaching.

The reform options however typically carry a number of risks of a transitional nature, i.e. involving the reform process itself where existing council entities cease to exist and are being replaced by a new entity.

4.1 Risk register

A risk register was prepared to identify the key risks involved with each of the reviewed reform options plus the business as usual option. A total of 15 different risks categories were identified, with a total of 42 individual risks. The full risk register is included in the appendix (Section 6.5). Each risk category may apply to one or more options. For instance risk category "10. Failure of a Capital City Act to be enacted" applies to four of the five reform options.

The risk categories are:

1. Inability to meet the changing and increasing community needs.
2. Inability to continuously improve efficiencies and service delivery.
3. Escalation of transitioning process costs and time
4. Loss of local representation
5. Inability to meet the needs of communities of interest (deterioration of service levels)
6. Legacy issues undermining the financial performance of the new entity
7. Different organisational cultures
8. Unrealistic expectations about outcomes, especially in regards to efficiency savings
9. Failure of a Capital City Act to be enacted
10. Inability to agree on common directions in regards for strategic initiatives for the entire Greater Hobart area (encompassing the existing four Council areas)
11. Important decisions to achieve efficiency savings are not implemented by the new entity Council
12. Council is unable to dispose of excess assets
13. Rates equalisation and the risk to rates revenue
14. Service levels and costs skew towards the highest service levels
15. Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other

All risks were scored on 'likelihood' and 'impact' to determine the 'raw risk' according to the score matrix below. The high and extreme risks are discussed in this section. The appendix includes the risk register with all risks and their identified mitigating measures and 'residual risks'.

TABLE 31 RAW RISK SCORE MATRIX: LIKELIHOOD AND IMPACT

Likelihood	Impact				
	Insignificant	Minor	Moderate	Major	Catastrophic
	A	B	C	D	E
1 (almost certain)	M	H	H	E	E
2 (likely)	M	M	H	H	E
3 (moderate)	L	M	M	H	E
4 (unlikely)	L	L	M	H	H
5 (rare)	L	L	M	H	H

Raw risk

TABLE 32 RAW RISKS FOR LOCAL GOVERNMENT REFORM OPTIONS

Raw Risk	Low	Moderate	High	Extreme
1. Business as Usual			2	
2. Merger all four councils		5	5	2
3. Strategic alliance			1	1
4. Merger Hobart, Glenorchy & Clarence		5	7	1
5. Merger Hobart & Glenorchy		5	7	1
Total	0	15	22	5

For the **business as usual option**, the two *high* risks are:

- Inability to meet the changing and increasing community needs.
- Inability to continuously improve efficiencies and service delivery.

Councils are confronted by changing and increasing community needs. As stand-alone councils, there are limited opportunities for efficiency savings. The impacts are decreasing service levels and/or long term financial unsustainability and risk. Councils may be unable to maintain their levels of service without increasing revenue, for instance through rate increases. It is noted that such an outcome would not be in line with two of the four principles of reform[16].

The response to these risks would be to:

- Implement an effective strategy and culture to improve efficiencies, and to
- Initiate additional shared service arrangements.

For the merger of **all four councils**, the *extreme* risks are:

- **11. Important decisions to achieve efficiency savings are not implemented** by the new entity council. This risk is applicable to all merger options.
  - **Risk response:** Implement effective transitional arrangements including progress against performance indicators.
- **15. Reduced synergies.** Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other. This will result in foregone efficiency savings.
  - **Risk response:** Roll out and implementation of ICT infrastructure, implement strategy for the consolidation of work locations.

For **all the merger options** (Options 2, 4 and 5), the *high* risks are:

[16] i.e. it would not be in the interest of ratepayers and it would not improve the level of services for communities

- **3. Escalation of transitioning process costs and time**. The transitioning process of a merger can be costly and time consuming, and is of risk of escalating.
  - **Risk response:** A thoroughly mapped and planned process of transition. Also, proposed mergers must meet minimum levels of community support to prevent cost escalations and delays. Community engagement is a key element of a local government reform process. Mergers that are voluntary (e.g. Geraldton – Greenough WA) or at least amicably negotiated (e.g. Onkaparinga SA) have reservoirs of goodwill that can assist and reduce costs in the transition process (Tilley and Dollery, 2010).
- **4. Loss of local representation**. The merged entity will have a lower per capita number of elected representatives and this may result in a loss of local representation. Vice versa it can be argued that the quality and expertise of the elected members is likely to increase, resulting in potentially better outcomes in terms of local representation. This is a high risk for the merger of all four councils. The other two merger options are less exposed to this risk due to the fact the new entity represents a less substantial shift in the number of constituents.
  - **Risk response**: Temporary wards (as is assumed in the financial analysis) and/or creating new opportunities for community engagement and empowerment
- **7. Different organisational cultures**. The merged entity will bring together staff and organisational cultures of the previous councils. Bringing these together may result in cultural conflicts, mutual misunderstanding and power play.
  - **Risk response:** A thoroughly mapped and planned process of transition, which considers cultural differences**.**
- **13. Rates equalisation and the risk to rates revenue**. Under the merged entity there may be a drive to equalise rates levels across the new entity's geographic area. There is a risk this may result in lower council revenue, assuming no rate payers will be made worse off. As part of the NSW reform process, the Government determined it was determined that rates will be protected for four years.
  For Greater Hobart, in terms of general rates, the rate in the dollar for Hobart and Glenorchy are very similar. The general rate for Clarence is approximately 16% lower. The rates regime of Kingborough is not directly comparable. There are significant differences in the total rates paid by households between for instance Hobart and Kingborough. These differences are due to differences in property values rather than differences in rates. Rates equalisation between Hobart, Glenorchy and Clarence is therefore expected to be manageable, without major changes to ratepayers concerned.
  - **Risk response**: Effective transitioning strategy for rates equalisation (staged approach).
- **14. Service levels and costs skew towards the highest service levels.** This risk has been allowed for in the financial modelling of the realistic scenario, i.e. 'merger with efficiencies'.
  - **Risk response:** Effective transitioning strategy.
- **15. Reduced synergies.** Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other (merger of two and three councils).
  - **Risk response:** Roll out and implementation of ICT infrastructure, implement strategy for the consolidation of work locations.

Number 3, 7, 13 and 14 are risks of a transitional nature, and are best addressed by a thoroughly mapped and planned process of transition. The loss of local representation (4.) can be managed by the introduction (at least temporary) of wards and/or creating new opportunities for community engagement and empowerment. Roll out and implementation of ICT infrastructure[17] and a strategy for the consolidation of work locations are measures to manage risk 15.

For the **strategic alliance** there is two key risks:

[17] Which has been included in the costing of the financial feasibility analysis

- **9. Failure of a Capital City Act to be enacted.** The Capital City Act is the means to ensure all councils and state government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out. (extreme risk)
    - **Risk response:** Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.
- **10. Inability to agree on common directions for strategic initiatives** for the entire Greater Hobart area (encompassing the existing four council areas). Past experience in relation to metropolitan planning and governance in Greater Hobart has illustrated that this risk is real. (high risk)
    - **Risk response:** Establishing an early MoU, fostering a culture that aims to look to the greater good, carefully designed process for plan making, and engaging independent advice where applicable.

To ensure the Capital City Act is introduced, the councils will need to work collaboratively with State Government to deliver a strong business case. At the same time there will be a need to attempt to positively influence political decision makers.

The **merger options for Clarence, Glenorchy and Hobart, and Glenorchy and Hobart**, are subject to the risks identified under the merger of all four councils. In addition, there are risks associated with a possible failure to enact a Capital City Act and to agree on common directions for strategic initiatives for the entire Greater Hobart area.

Residual risk

Of the high and extreme risks, the risk responses are used to manage the risk. The table below shows to what extent these measures are likely to be adequate, inadequate or uncertain.

TABLE 33 RESIDUAL RISKS OF LOCAL GOVERNMENT REFORM OPTIONS

Risk response	Adequate	Inadequate	Uncertain
1. Business as Usual			2
2. Merger all four councils	3	2	2
3. Strategic alliance		2	
4. Merger Hobart, Glenorchy & Clarence	2	4	2
5. Merger Hobart & Glenorchy	2	4	2
Total	7	12	8

Risks that cannot be adequately managed upfront, and therefore need ongoing monitoring and evaluation are:

- **7. Different organisational cultures undermine the success of the merger** (merger options). This aspect needs considerable attention as part of the transition towards the merged entity (see next section). The aim is to shape a common culture based on shared values.
- **9. Failure of a Capital City Act to be enacted.** It is a risk ultimately owned by state government, and the councils have limited ability to influence and control this risk. This risk needs ongoing attention (strategic alliance, and to a lesser extent merger of three and two councils).
- **10. Inability to agree on common directions** in regards for strategic initiatives for the entire Greater Hobart area (encompassing the existing four Council areas). This is especially true in case of a strategic alliance and mergers that do not involve all four councils.
- **11. Important decisions to achieve efficiency savings are not implemented by the new entity council** (merger options). This risk is owned by the newly created entity; the existing

councils have limited ability to ensure that difficult decisions are made and followed through. A carefully planned transition plan with clear performance indicators will support an ongoing focus on key objectives.

The extent to which the following risks can be managed is uncertain. These risks should therefore also be continuously monitored and evaluated:

- 1. Inability to meet the changing and increasing community needs (business as usual).
- 2. Inability to continuously improve efficiencies and service delivery (business as usual).
- 3. Escalation of transitioning process costs and time (merger options).
- 14. Service levels and costs skew towards the highest service levels (merger options).

4.2 Conclusions

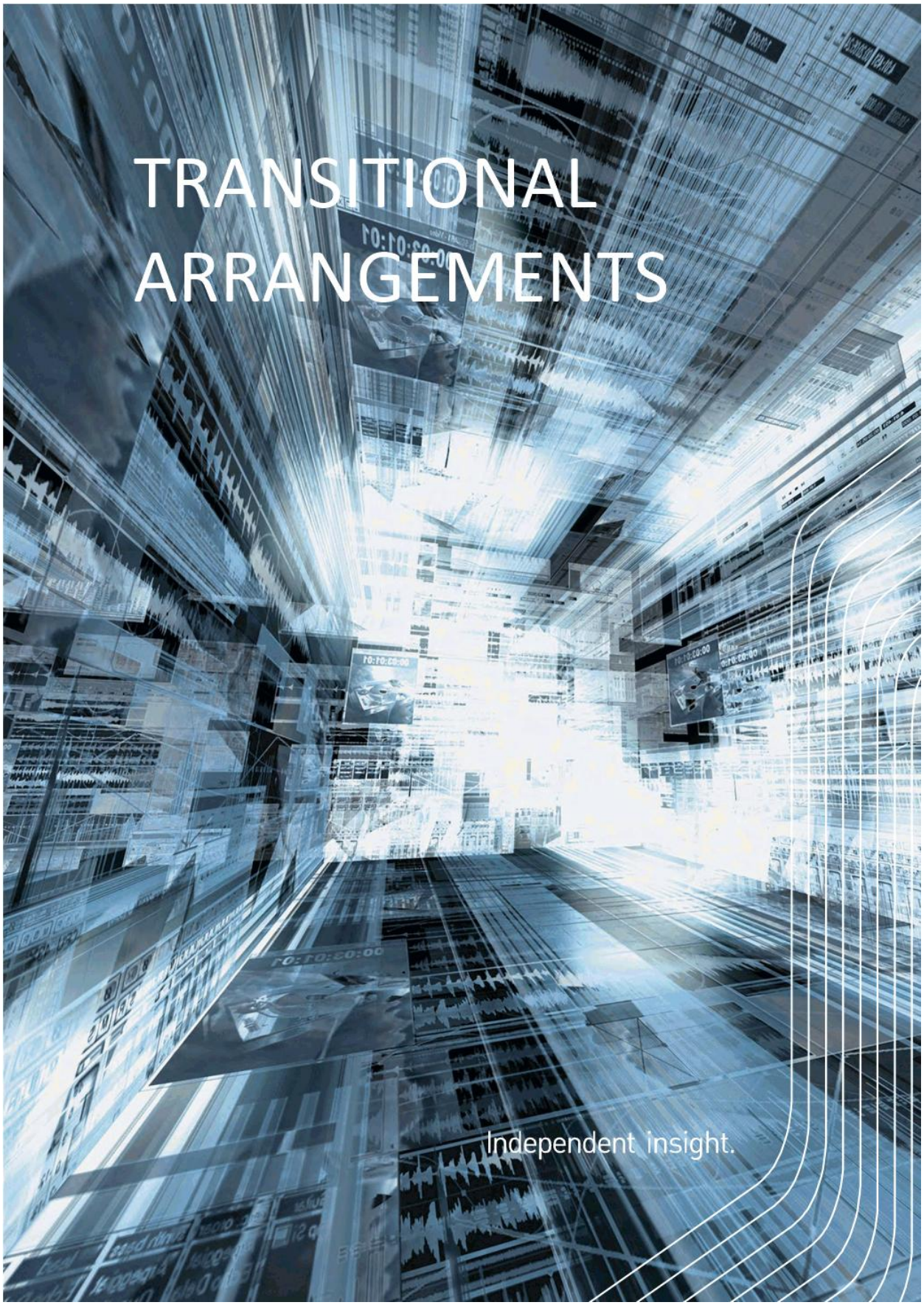
Transitional arrangements are crucial to control the risks that will arise. The next section provides more detail on transitional arrangements.

By providing the transitional governance arrangements with a clear brief it is expected that cost escalations after the merger will be controlled and managed. However, the extent to which assumed savings will be actually realised, will ultimately be up to the decisions of the new council and its elected members. Experience elsewhere shows that intended savings are often not realised and the new entity may end up having higher per capita spending than the pre-merger councils combined. This is however usually combined with an increase in the breadth and quality of services offered to the community.

In addition to transitional arrangements, continuous monitoring of risks will be crucial, both during transition and afterwards. This is especially true for risks of which the outcomes of risk management interventions are uncertain.

Risk management during transition and thereafter will need to focus on:

- Inadequately managed and uncertain risks that need sustained and active attention
- Risks where the Response Strategy is seen as “Inadequate” or “Uncertain” at present but which may change in rating given future analysis and response strategies
- Risks with “ownership” that do not rest with the council(s) involved in the reform.


TRANSITIONAL
ARRANGEMENTS
Independent insight.

5 TRANSITIONAL ARRANGEMENTS

5.1 Introduction

The transition to the preferred reform option involves a range of steps. The transition is most all-encompassing in case of a merger, especially where it involves more than two council entities.

Practitioners such as Percy Allan (Allan, 2016) highlight the importance of thoroughly mapping and planning the process of transition to minimise costs and maximise benefits. The key elements of this are:

- Establishment of a transitional body and governance arrangements. Some councils have received state financial assistance to fund implementation arrangements.
- Allowing a reasonable and generous program timeframe, not assuming early flow of financial benefits.
- Anticipating and mapping the implementation steps towards full amalgamation.
- Accurately targeting specific services for improved joint delivery where economies of scale or scope are apparent, for example: administrative functions, resource management and human resources.
- Minimising duplication of services within the merged council.
- Determining service quality and financial performance benchmarks, for ongoing monitoring and evaluation.
- Resolving award arrangements in a merged council to ensure that the highest pay scales are not adopted without a clear rationale.

If, after community consultation, the councils decide they want to progress with a merger, they will request the Minister for Local Government to initiate a Local Government Board review. Based on the outcome of this review, the Minister may decide to make a recommendation to the Governor to approve the merger proposal. The Governor then may decide to make an order for creating a new merged council. This is where the transition towards a merged entity commences. The Local Government Act 1993 does not provide for any transitional body or other arrangements. The Local Government Board can however make recommendations for transitional arrangements.

This section considers the staging of transition and the required transitional arrangements based on best practice elsewhere and findings of this study.

5.2 Transition towards mergers

Planning

Carefully planning and mapping the transition process is vital. Also, there is a need to set up effective transition framework and governance arrangements. Project management approaches are generally applied to managing the transition process. It allows the right skills to be involved in exploring options and defining solutions. The next section provides more detail on the staging and the tasks involved in the transition process.

The transition to a merged council proceeds through four stages (LGNSW[18], 2016):

[18] LGNSW (2016), Amalgamation toolkit. www.lgnsw.org.au/amalgamation-toolkit/

- **Review**. Councils prepare to merge, establish a project management framework (transition committee and guiding principles), document the current state (risks, due diligence) of the councils and develop an overarching Transition Action Plan.
- **Plan**. Analyse, consolidate and integrate current state data to inform decision-making and plan development. Prepare risk management plan.
- **Mobilise**. Finalise interim (governance) arrangements for the new entity. Agree on policies and delegations, staff transfer, interim service delivery model and operational plan. During the 1993 reforms in Tasmania, councils used Local Transition Committees.
- **Implement**. New entity commences. Establishment of interim governance arrangements. The interim arrangements may continue for one to three years.

In Tasmania, some options for interim governance arrangements are the appointment of a commissioner or administrator and the establishment of an interim council (*LGA Act 1993*, 214E(5)).

The typical objectives and tasks for the transition to a merged entity are provided in Table 34.

TABLE 34 TYPICAL OBJECTIVES AND TASKS FOR TRANSITION TO A MERGED ENTITY

Governance	– Democratic structures (council committees) – Systems and processes to service and support the democratic structure – Governance procedures and corporate policy and procedures – Organisational structure of the new organisation
Workforce	– Workforce-related change management process – Human Resource capacity for the new entity – Role descriptions
Finance and Treasury	– Ensure the new entity is able to generate the revenue – Ensure the new entity is able to satisfy any borrowing requirements – Ensure the new entity is able to procure goods and services – Methodology for interim rates billing and rates harmonisation – Statutory and management reporting – Financial framework that complies with legislative requirements
Business process	– Planning and managing the integration and harmonisation of business processes and systems for Day 1 including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc. – ICT strategy to support processes and systems that require change – Longer term ICT strategy for the future integration and harmonisation
Communications	– Appropriate communication strategies and processes – Communication plan for the transition period
Legal	– Legal risks are identified and managed – Existing assets, contracts etc. are transferred to the new entity – All litigation, claims and liabilities are identified and managed
Property and assets	– All property, assets and facilities are retained, managed and maintained – Delivery of property related and asset maintenance services – Relocation of staff and accommodation
Planning services	– Meet its statutory planning obligations – Operate efficiently and staff and customers understand the planning environment Developing a plan to address the statutory planning requirements beyond Day 1
Regulatory services	– Regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place – Business as usual is able to continue
Customer services	– No reduction of the customer interaction element – No customer service system failures – Staff and customers are well informed
Community services	– Continue to provide community services and facilities – Current community service grant and funding recipients have certainty of funding during the short term

Source: Morrison Low, 2015

Communication and engagement

For internal communication it is important to communicate change clearly and often to staff, and to communicate openly and honestly. Throughout the transition it is essential to involve elected members from the participating councils.

It is also important the transition proceeds seamlessly as possible for residents and ratepayers. The case study on the transitional process currently underway in NSW shows how community and engagement is a key element.

Role of communication and engagement – Case study of the Fit for the Future process in NSW

The transition process of 19 new, merged councils in NSW as part of the Fit for the Future program is based on a number of common premises. The transition process runs from 12 May 2016, when the new councils were announced, to 9 September 2017 when council elections will be held. During the transition period the new councils will:

- *Be run by an Administrator and an interim General Manager until council elections are held in September 2017. The administrators are independent and appointed by the Minister for Local Government.*
- *Continue to provide services such as community development programs; assessing development applications; collecting rubbish and recycling; and processing rates, fees and other charges*
- *Run the same community facilities, including libraries, seniors centres and swimming pools*
- *Operate under the same local planning regulations as former areas – for example, where a former council's local environment plan restricted certain development types, this will continue.*
- *Continue valued community engagement*
- *Continue to hold public council and committee meetings and be represented at civic and community events*
- *Consult about priority projects for the Stronger Communities Fund*
- *Deliver substantial savings and benefits to local communities for many years to come*
- *Be better placed to deliver the vital infrastructure that growing communities need*

In NSW, a key element of process is the inclusion and engagement of elected members and community members in the transition process. This is either through an Implementation Advisory Group to advise the Administrator on how best to bring council systems and staff together, or through Local Representation Committees (LRCs) to provide advice on local views and issues. LRCs also include other community members. These committees also contribute in the development of a new Community Strategic Plan.

State Government provides direct funding towards the costs of merger including for ICT and community consultation. In addition, there is the NSW Stronger Communities Fund which provides grants to projects that develop more vibrant, sustainable and inclusive local communities. Each former council receives up to $5 million under this fund.

Organisational culture and performance

Cultural differences between councils may be significant. Organisational cultural is strongly related to people's identity and change may be perceived as a threat to identity. As part of the transition process there is a need to shape a common culture based on common values.

In general terms, there exist three basic organisational cultural styles (Gancel et al, 2002):

- Conceptual - "the head" - rational, thought through
- Pragmatic - "the muscle" - decisive and goal focused, and
- Relational - "the heart" - traditional and relationships driven.

An organisational cultural audit may be undertaken to map cultures and understand differences especially in values, business practices, human resources and communications. This will help preventing 'clashes' during the transition process and forms the basis of shaping a new common culture.

Leadership

One of the most important ingredients for success with any change option is leadership. If there is no enthusiasm for change from the top there will be little willingness or enthusiasm from the staff and community.

The transition process requires leaders with the right skill and energy mix. The appointment of the right candidate should not be the result of a political compromise, but of a rigorous selection process.

5.3 Transition towards a strategic alliance

There are generally seven key steps that contribute to building this support and trust and to creating successful partnerships (VNG, 2014). Many if not all these steps also apply to mergers.

1. Formulate a **shared ambition**. It is important to develop a shared story of what the councils aim to achieve by working together. This shared or collective ambition will help staff, residents, elected members and others understand the added value of the partnership. Such a shared narrative should explain:
    - Who is involved in the partnership and why
    - What the councils aim to achieve
    - Why a partnership is needed to achieve that
    - Why it is urgent
    - What the benefits are.

2. Clear **roles and responsibilities**. Develop a clear plan on how to progress towards and throughout the partnership, and ensure the roles and responsibilities are clear.

3. Show **leadership**. Those involved should demonstrate internal leadership within their own councils and shared leadership within the partnership. There is a need to work towards agreement, bridge possible conflicts of interest and make compromises. This requires both flexibility and steadfastness.

4. Develop a **shared agenda**. The world is dynamic and priorities change. In a partnership it is important to repeatedly address the following three questions:
    - Are we doing the right thing?
    - Are we doing it right?
    - Are we doing it right together?

This requires a certain level of openness. Often key issues remain undiscussed and these issues may undermine the progress of collaboration. This 'undercurrent' may be driven by personal relations, cultural differences between councils, and fear of loss of control or independence.

5. Invest in (personal) **relations**. In developing partnerships there are usually three stages:
    - Orientation
    - Exploration
    - Development and implementation

    Importantly, the people involved in the partnership will evolve over time from decision makers (orientation), to executive leadership and management teams (exploration) to senior staff (development and implementation). For partnerships to succeed, these stakeholders should all be engaged from early on.

6. Build **support** and overcome differences. For a collaboration to succeed it is important that key stakeholders within the councils support the initiative. It is important to allow for sufficient time for each council to ensure relevant stakeholders are informed and to listen to any conditions or concerns that may be raised. Different viewpoints or resistance are best not pushed aside and instead should be addressed. Resistance may be due to *organisational sentiments* (doubt about the urgency, the need or the approach towards collaboration or about support and capacity within the organisation), *personal sentiments* (possible consequences for own functions, or pressure on work-life balance) and cultural sentiments (views about the other organisations).

7. **Connect**. Especially towards the implementation it is important that those involved see how they contribute to and are part of a partnership that will deliver great things.

APPENDICES

6 APPENDICES

List of appendices:

- 6.1 Appendix – Long list of reform options
- 6.2 Appendix –Council strategic priorities
- 6.3 Appendix – Financial Feasibility Analysis Morrison Low
- 6.4 Appendix – Assumptions and calculation wider costs and benefits
- 6.5 Appendix – Risk register

6.1 Appendix – Long list of reform options

TABLE 35 OPTIONS FOR REFORM

	All four councils	Clarence, Hobart and Glenorchy	Clarence, Hobart and Kingborough	Hobart, Glenorchy and Kingborough	Hobart and Glenorchy	Hobart and Clarence
Stand-alone (BAU)	*					
Shared services and/or outsourcing	*	*	*	*	*	*
Strategic alliance and/or joint organisation	*	*	*	*	*	*
Merger	*	*	*	*	*	*

Source: SGS (2016)

6.2 Appendix –Council strategic priorities

TABLE 36 SUMMARY AND COMPARISON OF COUNCIL STRATEGIC PRIORITIES

Strategic priorities	Clarence	Glenorchy	Hobart	Kingborough
Accommodating significant growth	-	-	Significant levels of retail, residential, education and office development. Managing impact of growth on infrastructure and services.	Greatest anticipated population increase in state. Manage urban sprawl. Parking facilities at commercial centres.
Transport	Coordinated public transport system, bicycle infrastructure, road network.	Public transport and cycling, Hobart to Glenorchy Light Rail.	Better active transport options, cycleways, Hobart to Glenorchy Light Rail.	Improved public transport, infrastructure, tracks and trails, pathways to encourage active transport.
Community facilities, public space and participation	Focus on soft infrastructure.	Improving access to public areas and facilities. Moonah Arts Centre, further development of GASP!	Development of key open spaces, improved public health outcomes and community participation.	Community infrastructure, visitor-friendly commercial centres; enhanced used of existing public spaces.
Sports and recreation facilities	Major regional sports precinct planned	KGV Precinct	Improvements to sports and recreation facilities, Hobart Aquatic Centre redevelopment.	Recreational and sporting facilities.
Age-specific participation	Ageing population, youth unemployment, youth relocation.	Services for people of all ages with reference to Positive Ageing Strategy.	Implementation of positive ageing, children and families, and youth strategies; accessible education and lifelong learning opportunities.	Opportunities for people of all ages.
Diversity and accessibility	Cultural diversity and promotion of social inclusion.	A safe, inclusive, active, healthy and vibrant community. A hub of multiculturalism, arts and culture.	Social inclusion, accessible city, implementation of equal access strategy and multicultural programs; celebrating diversity.	Opportunities for people of all abilities and backgrounds; cultural diversity to be supported.
Environmental protection and risk management	City identity and resident/visitor attraction.	Largely with community and economic focus, includes cleaning up River Derwent.	Contributor to character of City. Greater resilience to natural hazards needed.	Values of the natural environment to be protected; agricultural land.
Climate change	Key priority	-	Desired leadership role in mitigation; Tasmanian Coastal Adaptation Pathways.	Considered a concern, including bushfire planning and community resilience building.
Economic development	Tourism, agriculture, aquaculture, primary resource extraction. Commercial development and wider revenue base desired.	Modernised manufacturing, specialised marine-based activities, tourism, growing health and community services sector.	Education sector (growth of the University of Tasmania), retail sector, creative industries, fostering of international relationships, tourism.	Redevelopment of former Kingston High School site and Kingston central. Local food production and sales; creative and innovative businesses and industries; tourism, lifestyle and investment opportunities.
Tourism	Key priority for economic development, dependent on natural and built heritage.	Increased visitation desired.	Attraction of students and international visitors.	Tourism opportunities to be further investigated; tourism infrastructure (including ferry terminals).
Governance	Efficiency savings through resource sharing, opportunities for joint tenders, expansion of the Copping Refuse Site JA.	Efficiency improvements in service delivery. Better community outcomes and community engagement in decision making.	Changing role of local government and focus on community engagement.	Community engagement in decision making.

Source: SGS Economics and Planning, 2016

6.3 Appendix – Financial Feasibility Analysis Morrison Low

Merger Modelling Analysis Feasibility Study for Hobart, Clarence, Glenorchy and Kingborough Councils

January 2017

Document status

Ref	Version	Approving director	Date
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Appendix B	Scenario 2 – Merger of Hobart, Clarence and Glenorchy LTFP
Appendix C	Scenario 3 – Merger of Hobart, Clarence, Glenorchy and Kingborough LTFP
Appendix D	Scenario 1 – Merger of Hobart and Glenorchy - Costs and Benefits
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Appendix F	Scenario 3 – Merger of Hobart, Clarence, Glenorchy and Kingborough - Costs and Benefits
Appendix G	Costs and Benefits Arising from a Merger of Hobart and surrounding Councils

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Introduction

This report forms part of the feasibility study into local government reform between the Hobart, Clarence, Glenorchy and Kingborough Councils.

The study is separated into three phases

- Strategic Assessment
- Detailed Appraisal
- Reporting

This report relates specifically to the detailed appraisal phase and builds on the base line analysis completed in the strategic assessment phase.

The detailed analysis considers four scenarios

- A Strategic Alliance
- A merger of Hobart and Glenorchy (Scenario One)
- A merger of Hobart, Clarence and Glenorchy (Scenario Two)
- A merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three)

This report sets out the performance of the latter three scenarios against the financial and asset management indicators identified during the strategic assessment. The Strategic Alliance scenario contains only shared consultancy costs as agreed with the Councils. These costs have been modelled into each of the scenarios. The wider economic benefits of the Strategic Alliance are considered separately by SGS.

We have compared the projected performance of the merger scenarios against the projected performance of each Council using the Tasmanian Financial Sustainability Indicators.

Results of the analysis

Scenario One – Merger of Hobart and Glenorchy

- This scenario results in a **net financial benefit of $20.3M**[1] over ten years -the life of the combined long term financial plans (LTFP)
- If the LTFP is extrapolated to 20 years the net financial **benefit** increases to $32.8M[2]
- By 2026 the merged council meets five of six indicators failing to meet only the Asset Sustainability Ratio

Scenario Two – Merger of Hobart, Clarence and Glenorchy

- This model results in a **net financial cost of $5.3M**[3] over ten years -the life of the combined long term financial plans (LTFP)
- If the LTFP is extrapolated to 20 years a net financial **cost** of $2.8M[4] results
- By 2026 the merged council meets five of six indicators failing to meet only the Asset Sustainability Ratio

[1] Net Present Value using a real discount rate of 3% advised by SGS
[2] Same as above
[3] Same as above
[4] Same as above

Scenario Three – Merger of Hobart, Clarence, Glenorchy and Kingborough

- This model results in **a net financial cost of $16.0M**[5] over ten years -the life of the combined long term financial plans (LTFP)
- If the LTFP is extrapolated to 20 years net financial **cost** is $10.0M[6]
- By 2026 the merged council meets five of six indicators failing to meet only the Asset Sustainability Ratio

Developing the model

To provide a long term perspective and comparison of the sustainability of each council, a period of ten years has been modelled from 2016 to 2026. The councils' financial data has been assessed against sustainability indicators using data from published documents and LTFPs.

The base case financial model was developed using the most recent LTFPs from the councils, noting that:

- **Hobart's** LTFP has been uploaded from their website and covers the period 2016 to 2036
- **Glenorchy** has prepared a new LTFP for the period 2016 to 2026
- **Clarence's** LTFP model has been built from the 2015 to 2023 LTFP provided by the Council. Data has then been extrapolated to 2026
- **Kingborough** provided an updated LTFP covering the period to 2026

Financial information for the 2014 and 2015 years was obtained from the published annual reports from each council. The same methodology has been used to calculate the sustainability indicators in both the strategic and detailed assessment phases.

Each different merger scenario is constructed by combining the respective councils' LTFPs and then applying a range of costs and benefits that are specific to that merger. Costs and benefits have been modelled using a real discount rate of 3% as requested.

A snapshot of the LTFPs for each scenario are contained in the appendices

- Appendix A - a merger of Hobart and Glenorchy (Scenario One)
- Appendix B - a merger of Hobart, Clarence and Glenorchy (Scenario Two)
- Appendix C - a merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three)

For the purpose of applying a consistent approach to calculating future employee costs and benefits, total employee costs and full time equivalent staff numbers for 14/15 have been drawn from the 2015-16 Auditor Generals Comparative Analysis[7]. From these reported costs have been deducted senior staff costs and one-off redundancy costs incurred in that year.

[5] Net Present Value
[6] Net Present Value
[7] Report of the Auditor-General No. 6 of 2015-16 Auditor-General's Report on the Financial Statements of State entities Volume Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15, Pg. 36.

The cost and benefits of merger are influenced by two main factors: the number of councils merging and distance between centres. Traditionally, metropolitan mergers generate more benefits where there is obvious duplication, councils are in close proximity and/or resources can be easily shared or rationalised. In Scenario's One and Two, the merged councils are in close proximity and provide a more compact local government if merged resulting in benefits arising over the longer term. The addition of Kingborough in Scenario Three, which has a greater land area than the other three councils combined and different geography, however offers few additional benefits and opportunities for rationalisation.

The costs and benefits for each are scenario are also contained in the appendices

- Appendix D - cost and benefits for a merger of Hobart and Glenorchy (Scenario One)
- Appendix E - cost and benefits for a merger of Hobart, Clarence and Glenorchy (Scenario Two)
- Appendix F - cost and benefits for a merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three)

A comparison of the different cost and benefits and the supporting assumptions are contained in Appendix G.

Assumptions

In the course of modelling the merger scenarios, the following assumptions have been made:

- We have used the LTFPs from the base line analysis as a starting point for developing a merger model for each scenario. The assumptions for the base case models are outlined in the Strategic Assessment
- For the purpose of modelling the financial costs, it is assumed that the program of work the Strategic Alliance must proceed regardless of this analysis, and the costs would be shared equally by the councils if the Alliance does not proceed. Therefore the base case and each merger scenario bears a portion of these costs in the modelling analysis.

Identified risks

The merger of the councils also creates a range of risks that would need to be managed. In our view the key priorities for the councils, if any of these proposed mergers proceed, and recognising the risks inherent with any such change to local government, are:

1. Managing the transition from the existing councils into a new merged council
2. Continuing to fund the infrastructure needs of the combined council and apportioning the costs of renewing and upgrading infrastructure in a fair and equitable manner
3. Addressing the needs of different communities of interest within a merged council area
4. Managing the impact of any staff changes.

There are a number of significant potential financial and non-financial risks arising from this particular merger that will need to be considered, including the following:

- Transitional costs may be more significant than set out in the business case
- The efficiencies projected in the business case may not be delivered
- The implementation costs may be higher and the anticipated savings may not be achieved

- Decisions subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned
- The cultural integration of the council organisations may not go well, resulting in low morale, increased staff turnover rate etc. This would reduce business performance and prolong the time it takes for the predicted efficiencies to be achieved
- Service levels rise across the merged councils, standardising on the highest level of those services that are being integrated
- New services are introduced that are not currently delivered in one or more of the former council areas
- The financial performance of the merged councils are less than that modelled and this may result in the need to either reduce services, find further efficiency gains and/or increase rates to address the operating deficit
- Developing a governance model that represents the communities of interest across the proposed merger area.

If, for example, the Council chooses not to follow through with the projected efficiencies, this will affect the financial viability of the merged council. Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Careful consideration of the issue of cultural integration will be required, and the most consistent remedy to these particular risks is, in our view, strong and consistent leadership. Corporate culture misalignment during the post-merger integration phase often means the employees will dig in, form cliques and protect the old culture. In addition to decreased morale and an increased staff turnover rate, culture misalignment reduces business performance. It also prolongs the time it takes for the predicted efficiencies to be achieved.

The integration of services with differing service levels often leads to standardising those service levels at the highest level of the services that are being integrated. This is quite often a response to a natural desire to deliver the best possible services to communities, as well as the need to balance service levels to community expectations across the whole area. However, it does pose the risk of increased delivery costs and/or lost savings opportunities. Similarly, introducing services that are not currently delivered in one or more of the former council areas to the whole of the new council area will incur additional costs.

Alongside these typical risks arising from a merger, any reduced financial performance would be likely to lead to the new council having to review services and service levels to seek significant further efficiency gains and/or increase rates to address the operating deficit.

Potential risks

The restructuring of any business activity is always a source of potential risk and the merging of council organisations is no exception. A proper risk assessment and mitigation process is an essential component of any structured merger activity.

Notwithstanding the above, this report is not intended to incorporate or deliver a detailed risk management strategy for any merger of the councils. However, it is possible to at least identify the major risks involved in the process from a strategic perspective.

Subsequent events and policy decisions

The primary risk is that the efficiencies projected in the business case are not delivered. This can occur for a variety of reasons; however, the highest risk is that subsequent events are inconsistent with the assumptions or recommendations made during the process.

Those events may arise from regulatory changes between analysis and delivery or subsequent policy decisions about service levels or priorities. As an example, a policy decision to adopt a "no forced redundancies" position is unlikely to deliver on the financial savings proposed.

Similarly, decisions made subsequent to the merger about the rationalisation of facilities and services may not reduce the cost base of the merged organisation as originally planned.

Sustainability indicators

The following Financial Sustainability indicators were modelled in line with recommendations from the Tasmanian Audit Office, and published guidance.

Underlying operating result

The underlying operating result is the difference between day to day income and expenses for the period, and has been calculated by subtracting operating expenses (excluding one-off expenditure such as restructuring costs) from operating income (excluding capital grants and contributions, and unearned income) for the period.

Operating surplus ratio

The operating surplus ratio is the operating surplus (per above) expressed as a percentage of operating income (as calculated per the operating income above). For the purposes of calculating the operating surplus ratio, we have included state fire service commission levies, however we note that this income is not 'controlled' by the individual councils, and there is a case for its exclusion. Exclusion of this income would result in an increase in the percentages reported.

Net financial liabilities

Net financial liabilities are a measure of each council's ability to repay outstanding debts with current cash and cash equivalents, and are a measure of each council's liquidity. The net financial liabilities for each council have been determined by subtracting the total liabilities of a council from its cash, cash equivalents, debtors and other receivables, and other financial assets (i.e. investments).

Net financial liabilities ratio

This measure indicates the extent to which net financial liabilities could be met by the operating income of each council. The ratio is calculated by dividing the net financial assets (liabilities) by operating income for each entity.

State Fire Commission levy income has been included in the calculation of operating income for the purposes of assessing each council's performance against this measure. As noted earlier, as this income is not controlled by each council, it is arguable that this should be excluded. Exclusion of the State Fire Commission levy income would increase the reported percentage for each council that has an excess of financial assets and decrease the percentage for those in a net liability position.

Asset sustainability ratio

The asset sustainability ratio is intended to measure whether assets are planned to be replaced at the same rate as they are wearing out. The ratio is calculated as a percentage determined by dividing asset renewal expenditure by depreciation.

Asset consumption ratio

The asset consumption ratio is a measure of how depreciated an asset is, and therefore the percentage of economic benefits that remain in the asset. The ratio is calculated by divided the depreciated value of a council's assets by their replacement value.

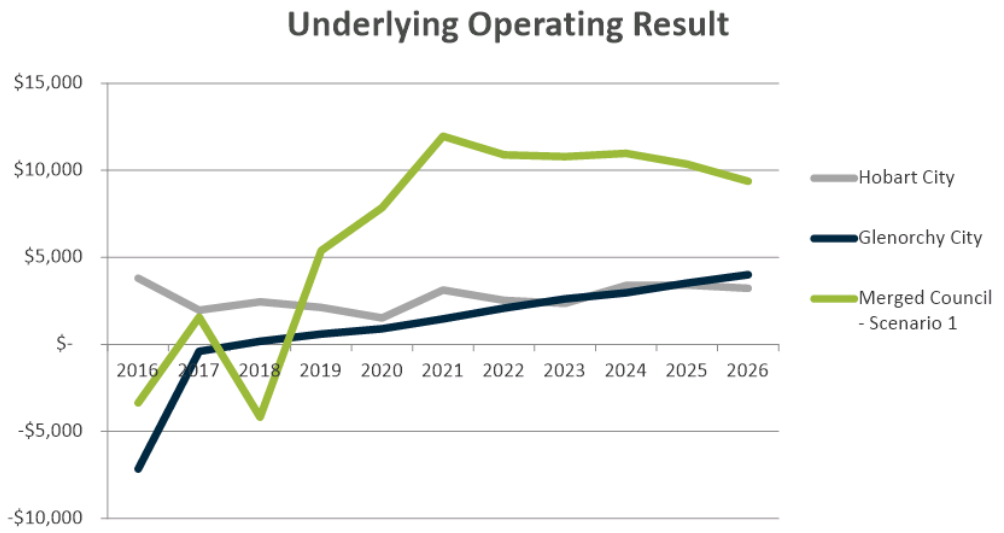
Asset renewal funding ratio

The asset renewal funding ratio compares a council's budgeted asset renewal expenditure with the required asset renewal expenditure that is set out within the council's asset management plan. The ratio is intended to compare the net present value of budgeted renewal expenditure with the net present value of the required renewal expenditure. A full set of data was not available when preparing the baseline analysis and therefore has not been modelled in the merger scenarios.

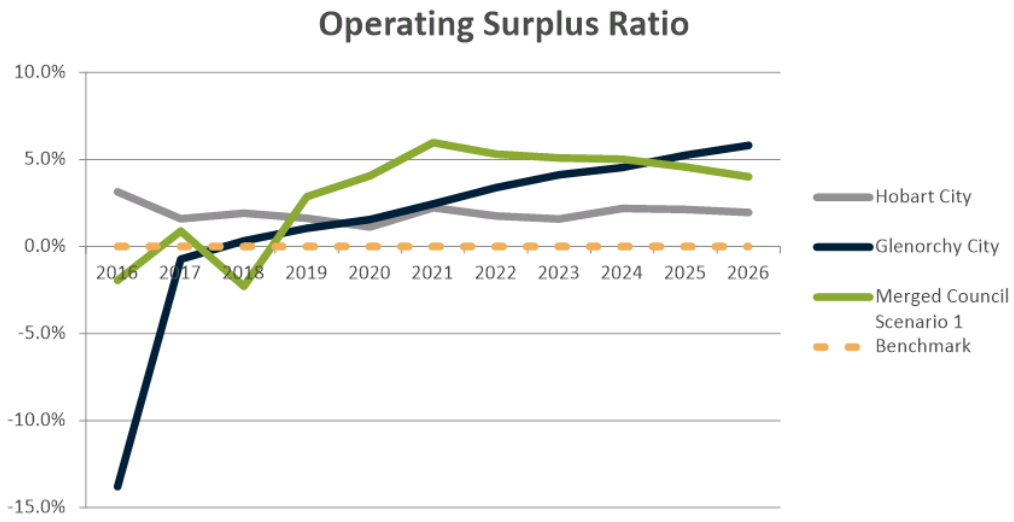
Scenario one – Merger of Hobart and Glenorchy

Performance against the indicators

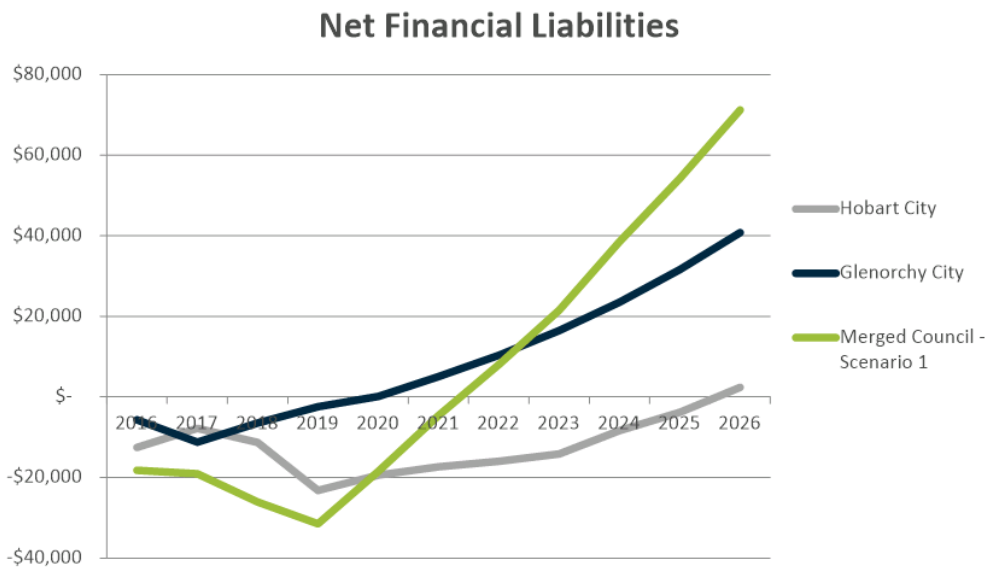
Graph 1: Underlying operating result



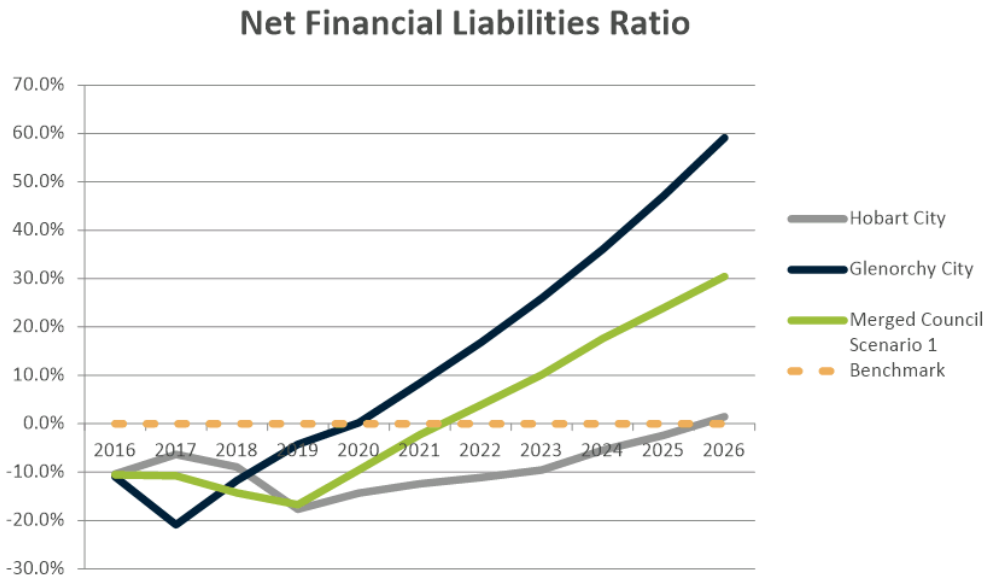
Graph 2: Operating surplus ratio



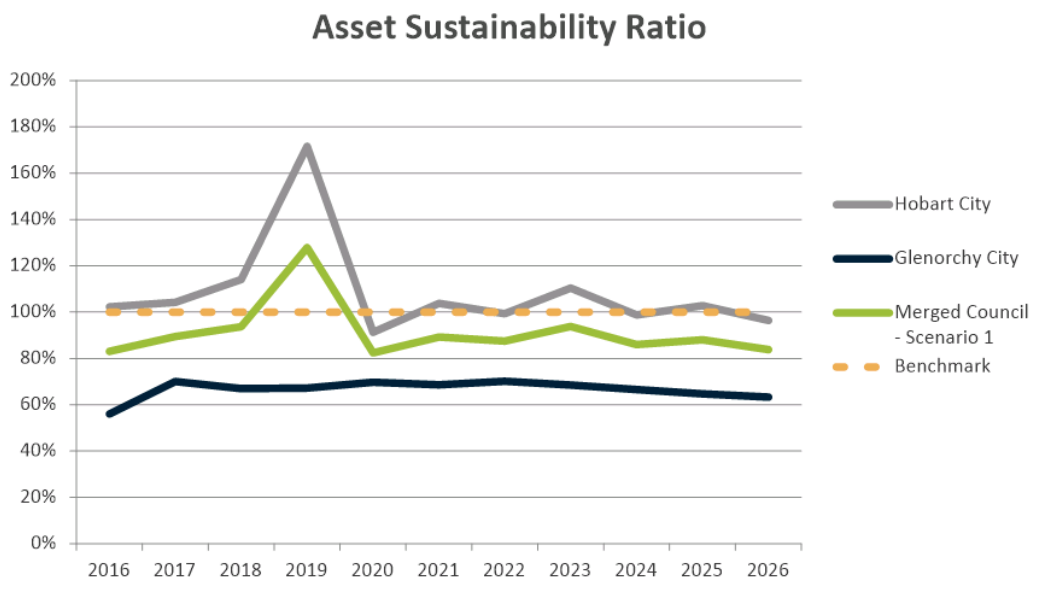
Graph 3: Net financial liabilities



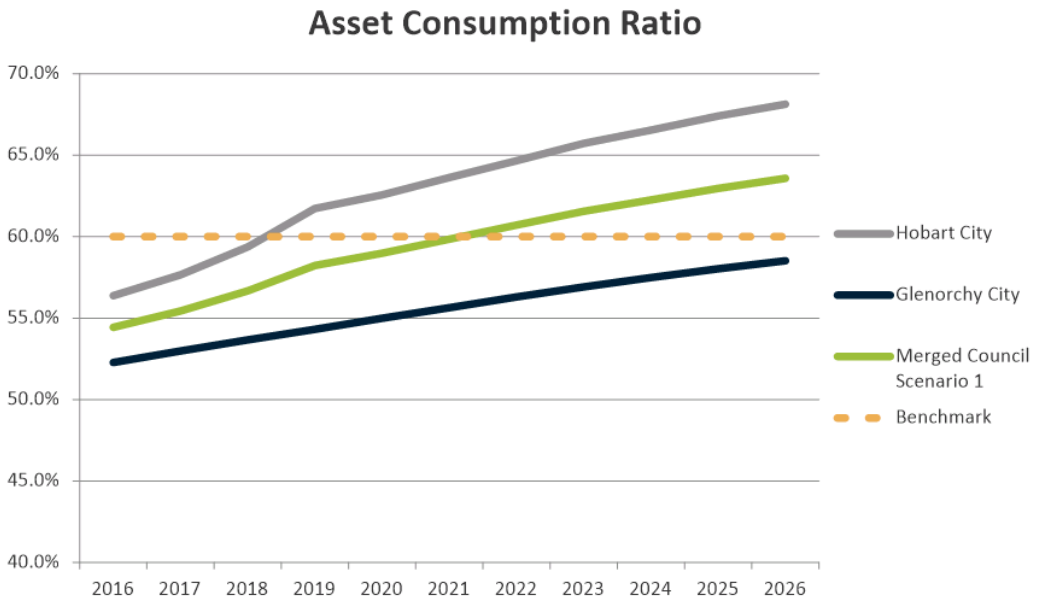
Graph 4: Net financial liabilities ratio



Graph 5: Asset sustainability ratio



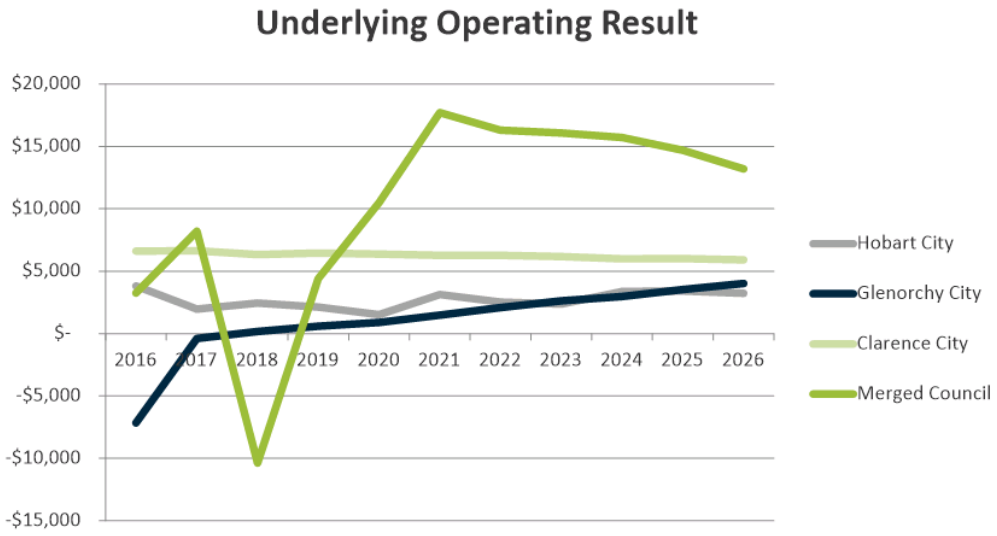
Graph 6: Asset consumption ratio



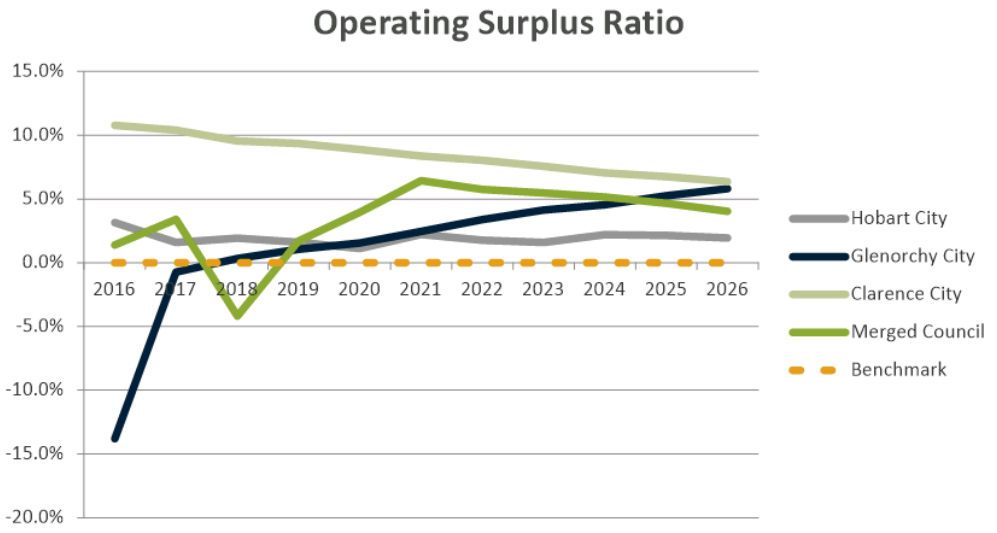
Scenario Two – Merger of Hobart, Clarence and Glenorchy

Performance against the indicators

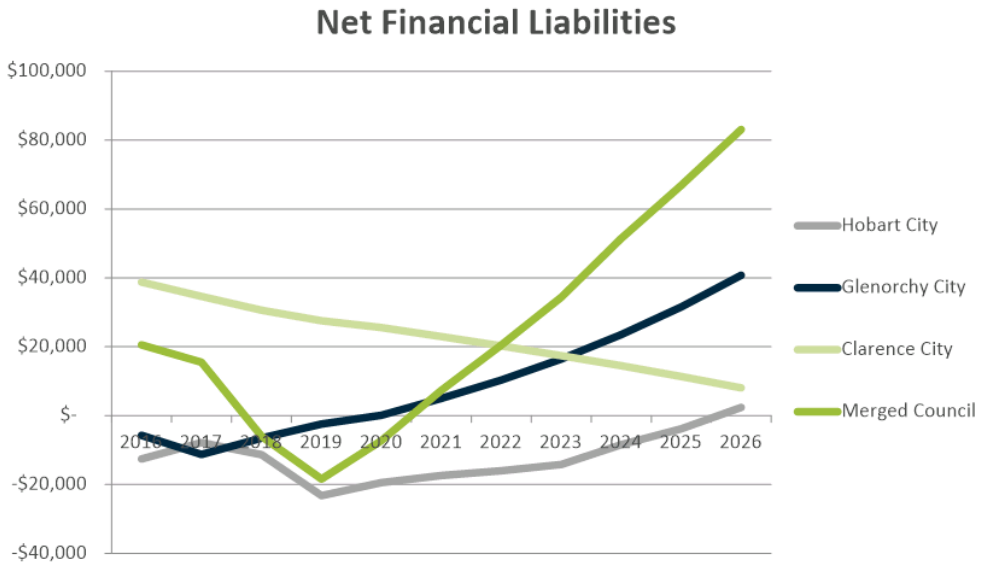
Graph 7: Underlying operating result



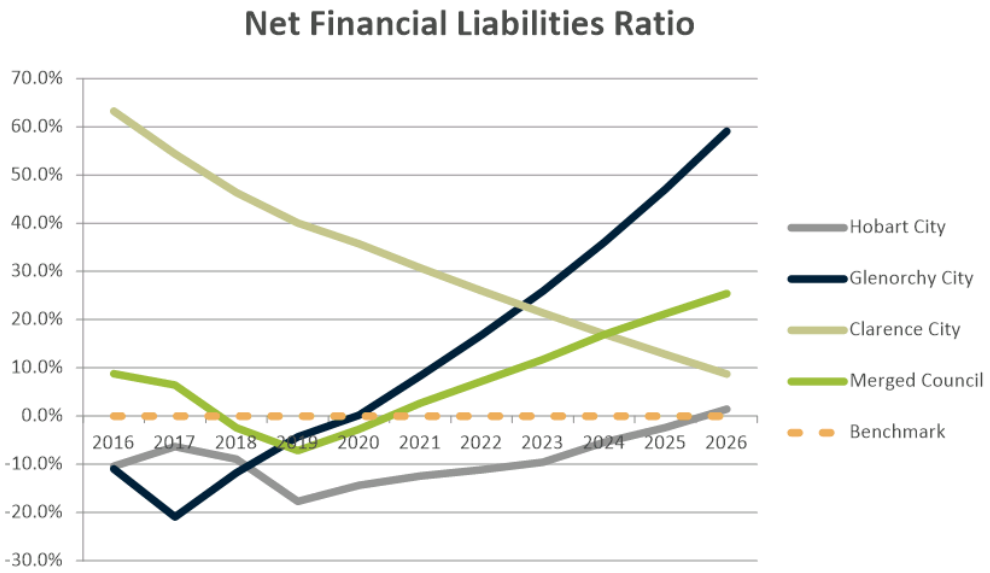
Graph 8: Operating surplus ratio



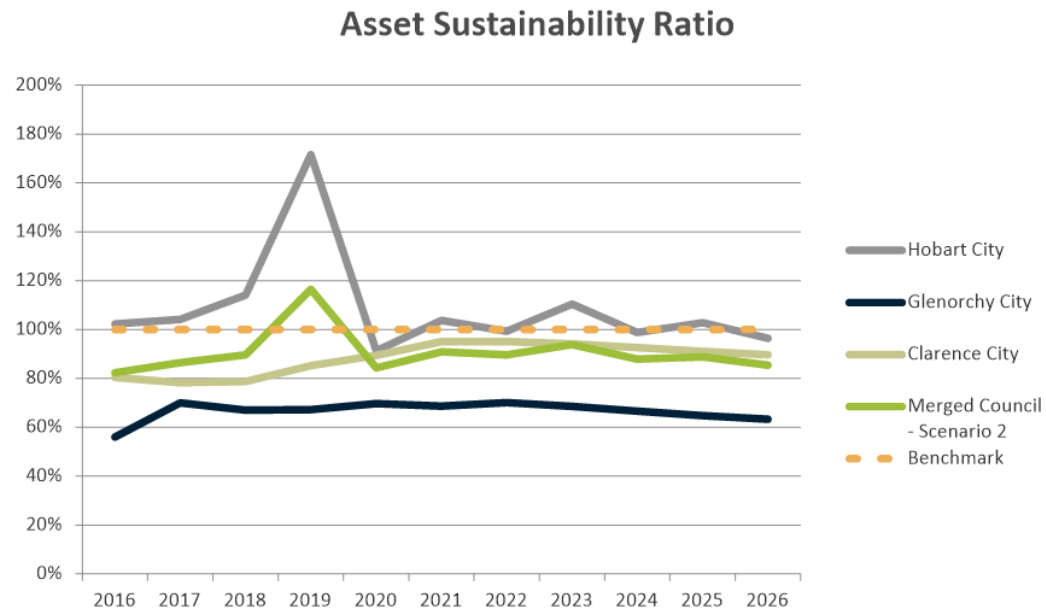
Graph 9: Net financial liabilities



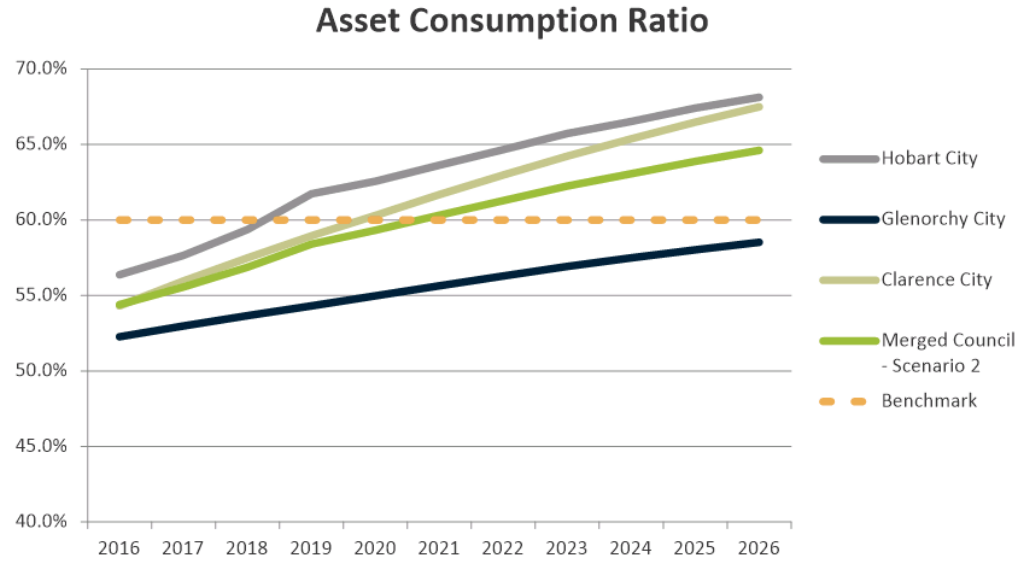
Graph 10: Net financial liabilities ratio



Graph 11: Asset sustainability ratio



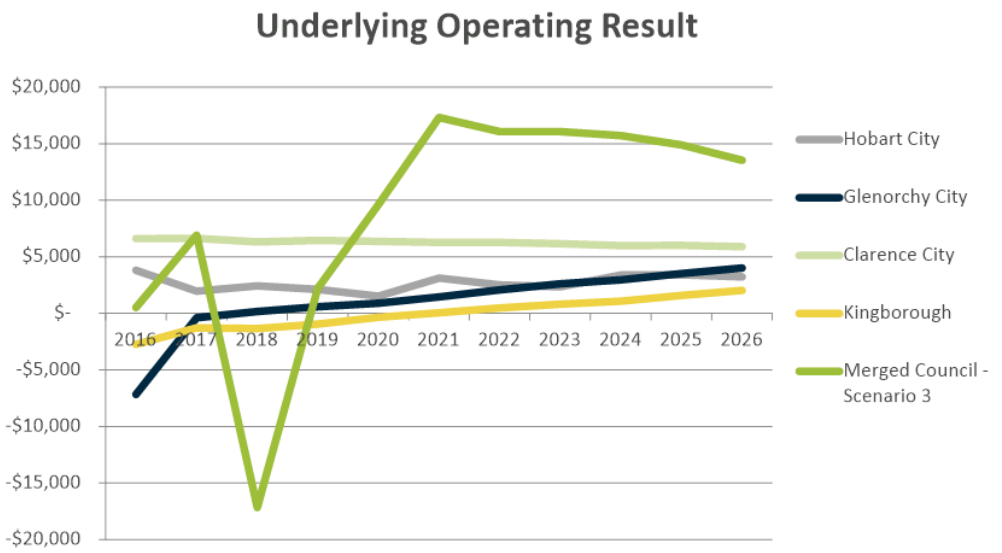
Graph 12: Asset consumption ratio



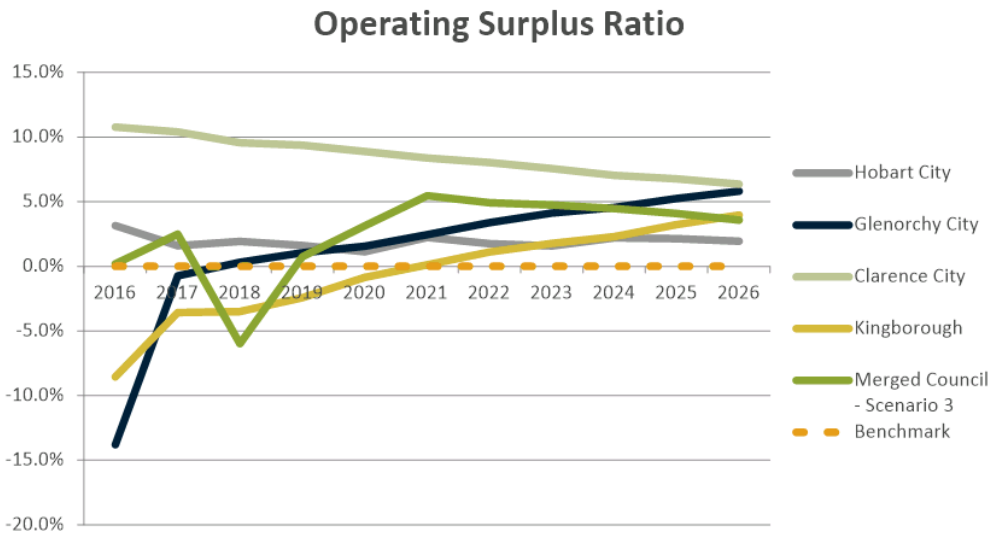
Scenario Three – Merger of Hobart, Clarence, Glenorchy and Kingborough

Performance against the indicators

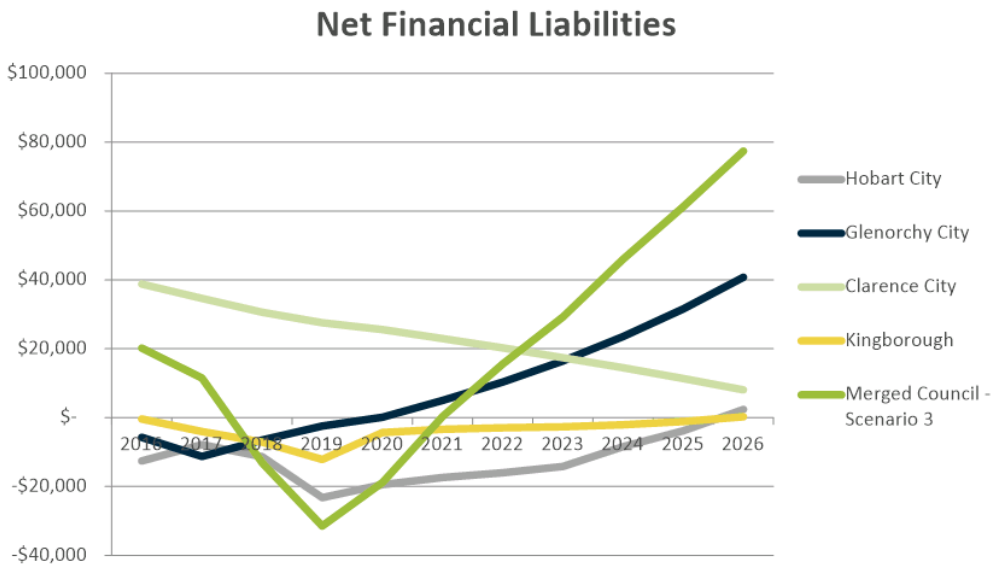
Graph 13: Underlying operating result



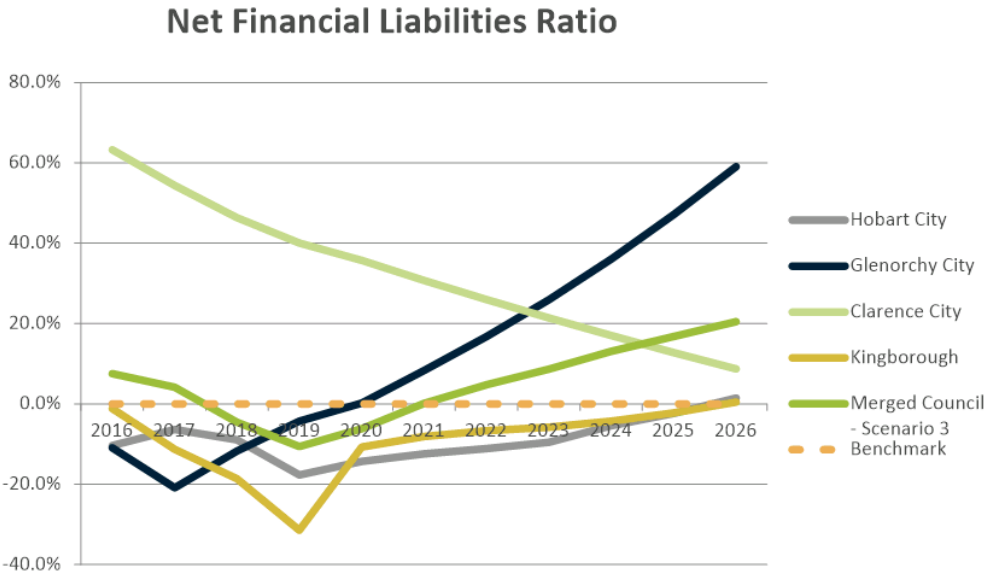
Graph 14: Operating surplus ratio



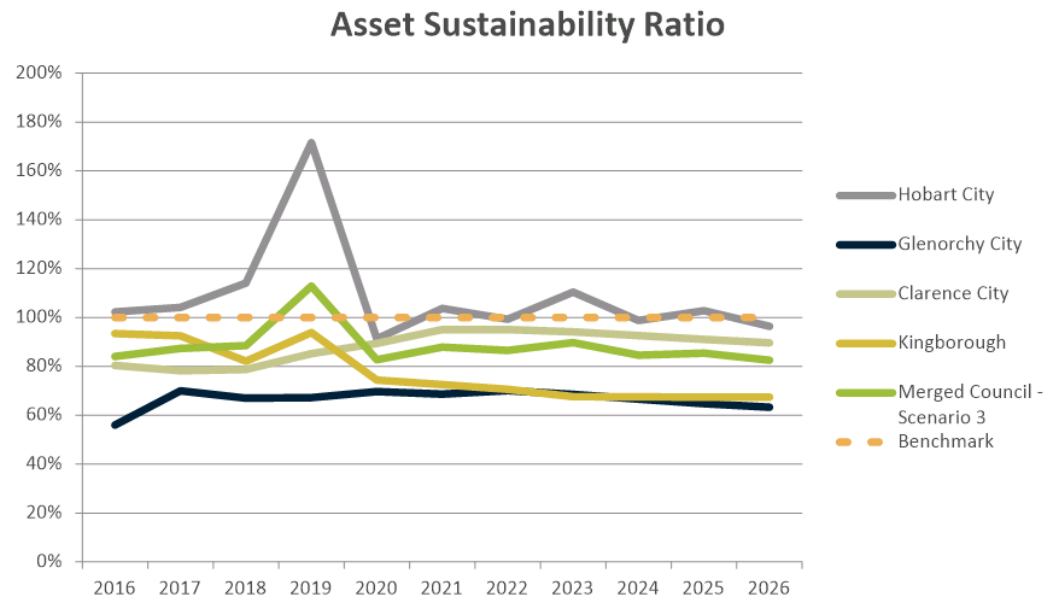
Graph 15: Net financial liabilities



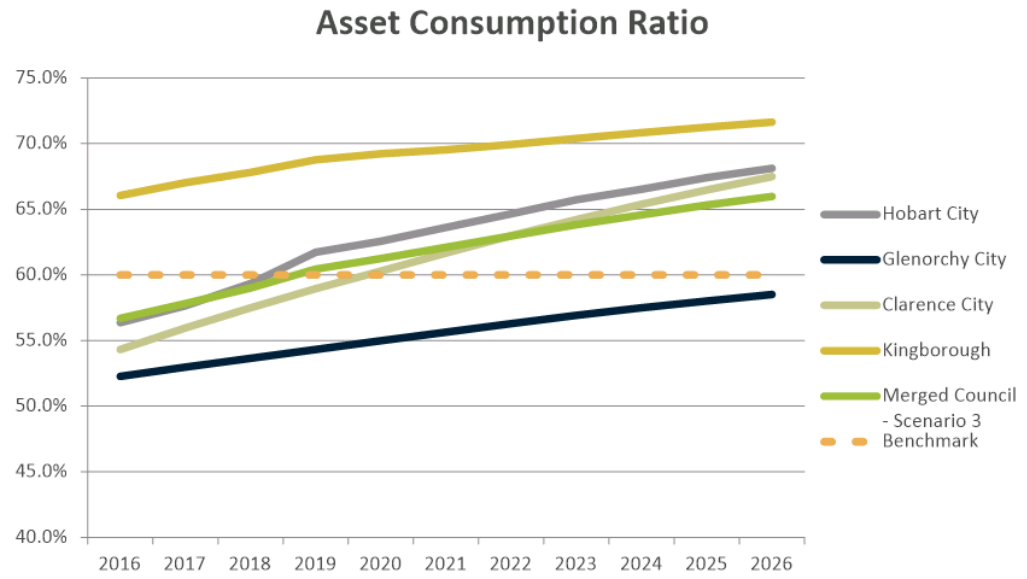
Graph 16: Net financial liabilities ratio



Graph 17: Asset sustainability ratio



Graph 18: Asset consumption ratio



Financial costs and savings of the merger

The costs and savings of the mergers arise throughout the period being modelled. The costs and savings should not be considered in isolation. They only form part of the information on which a decision should be made and, in particular, the overall financial performance of the merged council and projected asset expenditure.

In the initial transition period, for each scenario, there are costs associated with creating the single entity (structure, process, policies, systems and branding). Costs continue to arise through redundancies of senior staff and the implementation of a single IT system across the new council, which has significant cost implications. Further costs arise in the medium and longer term largely from redundancy costs (one off) but increasingly from an overall increase in staff numbers which is typical of merged councils, and are considered to arise as a result of a more complex organisation, increased services and service levels.

Savings initially arise in the short term through the reduction in the number of senior staff and councillors required in comparison to the councils combined. Natural attrition is initially applied to a merger, with efficiencies meaning that overall staff numbers fall in the short term. Also in the medium and longer term, benefits arise through reducing the overall staff numbers with a focus on removing the duplication of roles and creating greater efficiency in operations and the rationalisation of buildings and plant (one off).

The costs and savings arising from the merger are in comparison to the current operating costs of the combined councils.

The merged councils are modelled on the basis of a combined LTFP where all council costs and revenues set out in the LTFP are brought together. The agreed base case LTFPs have been used for this process.

The combined councils' LTFPs have then been adjusted by the costs and savings of the merger with Short (1-3 years), Medium (4 – 5 years) and Long Term (6 – 10 years) time horizons. For simplicity, all transitional costs are modelled as taking place in 2018.

The NPV[8] of the costs and savings over the period being modelled (2026[9]) have been calculated, and overall the modelling projects a financial impact to the four communities arising from the different merger scenarios. The NPV of projected costs and savings arising from the mergers projected until 2026 with a real discount rate of 3.0%:

- A merger of Hobart and Glenorchy (Scenario One) is expected to produce $20.3 million in net financial benefit
- A merger of Hobart, Clarence and Glenorchy (Scenario Two) is expected to produce $5.3 million in net financial cost
- A merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three) is expected to produce $16.0 million in net financial cost.

The wider community economic modelling undertaken by SGS uses a much longer period of 20 years for the calculation of costs and benefits given the nature of these costs and benefits, which is beyond that considered by the councils. We do not presume that councils, or the priorities and constraints under which they operate, will remain static into the future and recognise that any resulting modelling over such a long period is most likely to be inaccurate. This concern aside, for the purposes of providing a 20 year comparison, we have extrapolated the costs and benefit. The NPV of projected costs and savings arising from the mergers projected for 20 years with a real discount rate of 3.0% are estimated as:

[8] Using a real discount rate of 3.0%
[9] 2026 is the period being modelled to match the time covered by all Council LTFPs

- A merger of Hobart and Glenorchy (Scenario One) is expected to produce $32.8 million in net financial benefit
- A merger of Hobart, Clarence and Glenorchy (Scenario Two) is expected to produce $2.8 million in net financial cost
- A merger of Hobart, Clarence, Glenorchy and Kingborough (Scenario Three) is expected to produce $10.0 million in net financial cost.

These costs should be seen in context of the timeframe over which they arise and the overall financial performance of the merged council and, in particular, the need for the merger scenarios to increase asset expenditure to meet the asset sustainability ratio.

Scenario testing

The table below demonstrates the sensitivity of the modelling to different discount rates are used the net benefit or cost varies. The discount rate scenarios are applied to three alternative projections:

- The 'with efficiencies' scenario assumes the merged Council is willing and able to make efficiencies outlined in Appendix G. This scenario is the basis of this report
- The mergers are unable to generate further savings below tier one and two. This was a common outcome of the mergers in NSW in 2004 and Queensland in 2009. We note no data is available from the current NSW mergers as non-contract staff have three years employment protection
- The mergers are able to generate savings i.e. 'with efficiencies' and staff salaries are able to be harmonised to the average salary across the councils (not the highest)
- The results below show how variable the results are to key policy decisions of the new council. Note negative numbers are costs. All results are the NPV over 10 years at a real discount rate of 3%.

	Mergers with efficiencies			Mergers with no staff savings below tier 1 & 2			Mergers with efficiencies and salary harmonisation to average salary costs		
Discount rate	1%	3%	6%	1%	3%	6%	1%	3%	6%
Merger of Hobart and Glenorchy	$23.3M	$20.3M	$16.5M	$1.5M	$0.3M	-$1.1M	$28.6M	$25.0M	$20.5M
Merger of Hobart, Clarence and Glenorchy	-$4.0M	-$5.3M	-$6.7M	-$29.2M	-$28.4M	-$27.1M	$25.0M	$20.6M	$15.3M
Merger of Hobart, Clarence, Glenorchy and Kingborough	-$15.7M	-$16.0M	-$16.3M	-$44.1M	-$43.0M	-$40.0M	$57.4M	$48.8M	$38.3M

Implications

In summary, we consider that the analysis presented in this report has the following implications:

- One merger scenario demonstrates financial benefits over a 10 year period (Scenario One) and two (Scenarios One and Two) over a 20 year period if all efficiencies can be realised.
- All merger scenarios demonstrate financial benefits over a 10 year period if salaries can be harmonised to average salary costs
- No mergers generate a financial benefit if savings though staff reduction cannot be achieved
- All mergers meet five of the six sustainability indicators measured by 2026

Appendix A Scenario 1 – Merger of Hobart and Glenorchy LTFP

Selected Councils Combined LTFP - 2017/18 Extrapolated	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Income Statement Source: Council Financial Statements and Long Term Financial Plan											
Rates and annual charges	93,022	96,515	99,655	102,893	106,231	109,677	113,229	116,890	120,662	124,546	128,547
State fire contribution income	14,050	14,930	15,645	16,399	17,192	18,034	18,921	19,857	20,843	21,884	22,981
User fees and charges	45,755	47,923	48,558	49,991	51,445	53,004	53,310	54,967	56,676	58,438	60,256
Grants and contributions - operations	5,455	6,212	6,292	6,375	6,458	6,603	6,751	6,902	7,057	7,215	7,377
Grants and contributions for capital	21,092	5,650	6,616	947	433	444	2,455	466	478	490	502
Interest and Investment Income	8,199	7,952	8,078	8,125	7,789	8,074	8,303	8,586	8,855	9,303	9,705
Capital gains/other capital items	135,106	-	500	977	-	0	-	-	-	-	-
One-off income	-	-	-	-	-	-	-	-	-	-	-
Other income	3,894	4,183	4,283	4,386	4,496	4,628	4,762	4,901	5,043	5,191	5,342
Total Income	**326,572**	**183,364**	**189,628**	**190,092**	**194,045**	**200,464**	**207,732**	**212,568**	**219,614**	**227,066**	**234,710**
Expenses											
Borrowing costs	1,566	1,327	1,184	1,034	886	718	586	482	434	401	366
Employee benefits	71,566	72,879	71,986	72,991	73,944	76,097	79,366	82,745	86,236	89,844	93,573
Employee separation payments	-	-	1,496	-	-	-	-	-	-	-	-
Gains and losses on disposal	8,264	3,029	2,369	2,397	2,363	2,137	2,131	2,091	1,959	1,928	1,895
State fire contribution expenditure	14,034	14,930	15,645	16,399	17,192	18,034	18,921	19,857	20,843	21,884	22,981
Depreciation and amortisation	31,014	33,502	34,139	36,067	37,741	37,730	39,722	41,732	42,800	44,910	47,128
All other expenses	49,857	50,475	61,373	53,888	53,624	53,348	53,661	54,414	55,884	57,261	58,884
Total Expenses	**176,302**	**176,142**	**188,192**	**182,775**	**185,751**	**188,064**	**194,387**	**201,320**	**208,156**	**216,227**	**224,828**
Operating Result	**150,271**	**7,222**	**1,436**	**7,317**	**8,295**	**12,400**	**13,344**	**11,248**	**11,458**	**10,839**	**9,882**
Less Grants and contributions for capital	- 21,092	-5,650	-6,616	-947	- 433	- 444	- 2,455	- 466	- 478	-490	- 502
Less Capital gains/other capital items	-135,106	-	- 500	- 977	-	0	-	-	-	-	-
Less One-off income	-	-	-	-	-	-	-	-	-	-	-
Plus Movement in unearned income	2,577	-	-	-	-	-	-	-	-	-	-
Plus Employee separation payments	-	-	1,496	-	-	-	-	-	-	-	-
Underlying result	**-3,350**	**1,572**	**-4,185**	**5,394**	**7,862**	**11,956**	**10,889**	**10,782**	**10,980**	**10,349**	**9,380**

Appendix B Scenario 2 – Merger of Hobart, Clarence and Glenorchy LTFP

Selected Councils Combined LTFP - 2017/18 Extrapolated	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Income Statement Source: Council Financial Statements and Long Term Financial Plan											
Rates and annual charges	133,845	139,061	143,996	149,278	154,753	160,490	166,440	172,612	179,014	185,652	192,538
State fire contribution income	18,710	19,802	20,737	21,721	22,755	23,849	24,999	26,210	27,483	28,825	30,236
User fees and charges	50,144	52,499	53,328	54,980	56,665	58,468	59,031	60,957	62,948	65,005	67,132
Grants and contributions - operations	10,861	11,766	11,999	12,253	12,513	12,839	13,174	13,518	13,871	14,234	14,606
Grants and contributions for capital	24,294	8,940	9,996	4,429	4,019	4,138	6,260	4,385	4,514	4,647	4,784
Interest and investment income	13,942	13,825	14,016	14,064	13,794	14,264	14,583	14,965	15,389	15,996	16,562
Capital gains/other capital items	135,106	-	500	-	2,289	0	-	-	-	-	-
One-off income	-	-	-	-	-	-	-	-	-	-	-
Other income	4,171	4,471	4,583	4,700	4,825	4,972	5,123	5,278	5,438	5,604	5,775
Total Income	**391,072**	**250,363**	**259,157**	**261,426**	**271,613**	**279,020**	**289,609**	**297,925**	**308,658**	**319,963**	**331,633**
Expenses											
Borrowing costs	1,603	1,355	1,202	1,042	886	718	586	482	434	401	366
Employee benefits	87,927	90,017	92,659	94,385	96,374	99,646	104,407	109,358	114,507	119,862	125,432
Employee separation payments	-	-	3,080	-	-	-	-	-	-	-	-
Gains and losses on disposal	8,790	3,569	2,924	2,968	2,951	2,743	2,755	2,734	2,621	2,610	2,598
State fire contribution expenditure	18,493	19,575	20,483	21,438	22,441	23,501	24,616	25,788	27,022	28,319	29,684
Depreciation and amortisation	42,598	45,579	46,729	49,236	51,516	52,152	54,823	57,542	59,353	62,241	65,274
All other expenses	71,583	73,128	95,050	83,526	80,643	78,414	79,868	81,568	84,493	87,192	90,307
Total Expenses	**230,995**	**233,223**	**262,127**	**252,594**	**254,812**	**257,174**	**267,055**	**277,472**	**288,430**	**300,625**	**313,661**
Operating Result	**160,078**	**17,140**	**-2,971**	**8,832**	**16,801**	**21,845**	**22,555**	**20,452**	**20,228**	**19,338**	**17,972**
Less Grants and contributions for capital	- 24,294	- 8,940	- 9,996	- 4,429	-4,019	- 4,138	-6,260	-4,385	- 4,514	- 4,647	- 4,784
Less Capital gains/other capital items	-135,106	-	-500	-	- 2,289	0	-	-	-	-	-
Less One-off income	-	-	-	-	-	-	-	-	-	-	-
Plus Movement in unearned income	2,577	-	-	-	-	-	-	-	-	-	-
Plus Employee separation payments	-	-	3,080	-	-	-	-	-	-	-	-
Underlying result	**3,255**	**8,200**	**-10,387**	**4,403**	**10,493**	**17,707**	**16,295**	**16,068**	**15,714**	**14,691**	**13,187**

Appendix C Scenario 3 – Merger of Hobart, Clarence, Glenorchy and Kingborough LTFP

Selected Councils Combined LTFP - 2017/18 Extrapolated	2016 (000s)	2017 (000s)	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Income Statement **Source: Council Financial Statements and Long Term Financial Plan**											
Rates and annual charges	154,552	162,683	168,687	175,085	181,727	188,683	195,909	203,414	211,208	219,303	227,710
State fire contribution income	20,013	21,164	22,160	23,208	24,310	25,473	26,696	27,983	29,337	30,761	32,260
User fees and charges	53,295	55,744	56,670	58,423	60,211	62,120	62,793	64,832	66,939	69,115	71,365
Grants and contributions - operations	14,572	15,477	15,710	16,076	16,450	16,894	17,351	17,820	18,302	18,798	19,307
Grants and contributions for capital	25,578	10,400	10,540	4,973	4,563	4,682	6,804	4,929	5,058	5,191	5,328
Interest and investment income	16,002	15,900	16,112	16,206	15,974	16,490	16,860	17,271	17,717	18,356	18,967
Capital gains/other capital items	135,106	-	500	-	2,284	0	-	-	-	-	-
One-off income	1,040	-	-	-	-	-	-	-	-	-	-
Other income	5,963	6,743	6,922	7,107	7,301	7,520	7,745	7,977	8,216	8,463	8,717
Total Income	**426,120**	**288,111**	**297,301**	**301,077**	**312,819**	**321,863**	**334,158**	**344,225**	**356,777**	**369,988**	**383,654**
Expenses											
Borrowing costs	1,633	1,464	1,390	1,525	1,191	939	761	642	554	481	406
Employee benefits	100,696	103,207	108,392	110,422	112,187	115,998	121,538	127,298	133,286	139,512	145,984
Employee separation payments	-	-	3,581	-	121	-	-	-	-	-	-
Gains and losses on disposal	9,590	4,269	3,524	3,468	3,351	3,043	3,055	3,034	2,921	2,910	2,898
State fire contribution expenditure	19,797	20,937	21,906	22,925	23,995	25,125	26,313	27,562	28,875	30,256	31,708
Depreciation and amortisation	50,587	53,959	55,502	58,403	61,133	62,181	65,323	68,521	70,810	74,200	77,764
All other expenses	85,156	86,949	112,696	97,147	94,515	92,579	94,286	96,168	99,560	102,535	106,035
Total Expenses	**267,458**	**270,785**	**306,991**	**293,889**	**296,493**	**299,865**	**311,277**	**323,225**	**336,006**	**349,893**	**364,794**
Operating Result	**158,662**	**17,326**	**-9,690**	**7,188**	**16,326**	**21,998**	**22,881**	**21,000**	**20,771**	**20,094**	**18,860**
Less Grants and contributions for capital	-25,578	-10,400	-10,540	- 4,973	-4,563	-4,682	-6,804	-4,929	-5,058	- 5,191	-5,328
Less Capital gains/other capital items	-135,106	-	- 500	-	-2,284	0	-	-	-	-	-
Less One-off income	- 1,040	-	-	-	-	-	-	-	-	-	-
Plus Movement in unearned income	2,577	-	-	-	-	-	-	-	-	-	-
Plus Employee separation payments	-	-	3,581	-	121	-	-	-	-	-	-
Underlying result	**522**	**6,926**	**-17,150**	**2,215**	**9,600**	**17,316**	**16,077**	**16,071**	**15,713**	**14,903**	**13,531**

Appendix D Scenario 1 – Merger of Hobart and Glenorchy - Costs and Benefits

	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Governance	- 438	- 450	- 462	- 475	- 488	- 501	- 515	- 529	- 544
Staff									
Redundancies	1,496	-	-	-	-	-	-	-	-
Staff Changes	- 3,033	- 3,117	- 3,202	- 3,290	- 3,381	- 3,474	- 3,569	- 3,667	- 3,768
Harmonisation	1,324	1,361	1,398	1,437	1,476	1,517	1,559	1,601	1,645
Natural Attrition	- 1,122	- 2,261	- 3,392	- 3,392	- 2,191	- 940	364	1,722	3,136
IT									
Transition costs	4,624	2,375	814	-	-	-	-	-	-
Long term Benefits	-	-	-	- 418	- 429	- 441	- 453	- 466	- 479
Materials and Contracts	- 561	- 577	- 593	- 1,227	- 1,261	- 1,970	- 2,024	- 2,080	- 2,137
Assets									
Plant and fleet	-	- 494	-	-	-	-	-	-	-
Buildings	-	- 482	-	-	-	-	-	-	-
Transitional Costs									
Transitional body	5,240	-	-	-	-	-	-	-	-
Rebranding	771	-	-	-	-	-	-	-	-
Total	**8,301**	**-3,644**	**-5,437**	**-7,366**	**-6,274**	**-5,810**	**-4,610**	**-3,420**	**-2,147**

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Appendix E Scenario 2 – Merger of Hobart, Clarence and Glenorchy - Costs and Benefits

	2018 (000s)	2019 (000s)	2020 (000s)	2021 (000s)	2022 (000s)	2023 (000s)	2024 (000s)	2025 (000s)	2026 (000s)
Governance	- 922	- 949	- 975	- 1,003	- 1,031	- 1,061	- 1,091	- 1,122	- 1,153
Staff									
Redundancies	3,080	-	-	-	-	-	-	-	-
Staff Changes	- 4,916	- 5,055	- 5,198	- 5,346	- 5,497	- 5,653	- 5,813	- 5,978	- 6,147
Harmonisation	6,198	6,373	6,554	6,740	6,931	7,127	7,329	7,537	7,750
Natural Attrition	- 1,392	- 2,809	- 3,952	- 3,952	- 2,435	- 845	821	2,565	4,390
IT									
Transition costs	15,734	8,090	2,773	-	-	-	-	-	-
Long term Benefits	-	-	-	- 1,426	- 1,466	- 1,508	- 1,550	- 1,594	- 1,640
Materials and Contracts	- 858	- 882	- 907	- 1,857	- 1,910	- 2,995	- 3,079	- 3,167	- 3,256
Assets									
Plant and fleet	-	-	- 982	-	-	-	-	-	-
Buildings	-	-	- 1,302	-	-	-	-	-	-
Transitional Costs									
Transitional body	3,947	-	-	-	-	-	-	-	-
Rebranding	1,543	-	-	-	-	-	-	-	-
Total	**22,413**	**4,768**	**-3,995**	**-6,844**	**-5,409**	**-4,934**	**-3,384**	**-1,759**	**-56**

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Appendix F Scenario 3 – Merger of Hobart, Clarence, Glenorchy and Kingborough - Costs and Benefits

	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Governance	- 1,410	- 1,448	- 1,488	- 1,529	- 1,571	- 1,615	- 1,659	- 1,705	- 1,751
Staff									
Redundancies	3,581	-	-	-	-	-	-	-	-
Staff Changes	- 5,929	- 6,092	- 6,502	- 6,680	- 6,864	- 7,053	- 7,247	- 7,446	- 7,651
Harmonisation	9,523	9,785	10,054	10,330	10,614	10,906	11,206	11,514	11,831
Natural Attrition	- 1,596	- 3,221	- 4,876	- 4,876	- 3,135	- 1,311	601	2,602	4,698
IT									
Transition costs	15,721	8,077	2,766	-	-	-	-	-	-
Long term Benefits	-	-	-	- 1,421	- 1,460	- 1,500	- 1,542	- 1,584	- 1,628
Materials and Contracts	- 1,050	- 1,079	- 1,109	- 2,229	- 2,290	- 3,564	- 3,662	- 3,762	- 3,866
Assets									
Plant and fleet	-	-	- 982	-	-	-	-	-	-
Buildings	-	-	- 1,302	-	-	-	-	-	-
Transitional Costs									
Transitional body	7,963	-	-	-	-	-	-	-	-
Rebranding	1,541	-	-	-	-	-	-	-	-
Total	28,344	6,020	-3,317	-6,405	-4,706	-4,136	-2,302	-380	1,633

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Appendix G Costs and Benefits Arising from a Merger of Hobart and surrounding Councils

Costs and benefits identified below form the basis of the modelling referred to throughout the report. Costs outlined below are one-off unless stated otherwise, whereas benefits continue to accrue each year unless stated otherwise. For the ease of comparison, cost or benefits associated with the three different merger scenarios are shown in comparative tables below. For the purposes of the modelling we have assumed that the merged council in each scenario is willing and able to make the necessary decisions that will give effect to the potential savings. We note, however, from merger experience in other States, the majority of councils have been reluctant to capture or, in some cases restricted from capturing, the potential savings. We have not modelled the merger scenarios without efficiencies other than through limited scenario modelling.

To test the validity of some of our assumptions we have selected comparator councils for each of the merger scenarios. These comparators have been selected based on geography, population size, land area and road length.

	Two council merger		Three council merger		Four council merger	
	Hobart and Glenorchy	Melton	Hobart, Clarence and Glenorchy	Mornington Peninsula	Hobart, Clarence, Glenorchy and Kingborough	Gosford
Population	96,277	132,752	150,317	155,015	185,735	193,000
Land area (km²)	200	527	585	724	1,302	941
Road length (km)	657	849	1069	1,700	1606	1142
Number of elected representatives	22	7	34	11	44	10
Number of staff	814	482	1,066	714	1,252	1,075

Assumptions have been made using the best available information including analysis of various reports on, and estimates of, merger costs in other similar situations. This has been supplemented with the professional opinion of Morrison Low staff based on experience, including with the Auckland Transition Authority (ATA).

Queensland Treasury Corporation August 2009 Report

In an August 2009 report[10] from the Queensland Treasury Corporation reporting on costs associated with the amalgamation of the Western Downs Regional Council, the report said:

> *A net cost outcome in the first local government term is likely as local governments will incur most of their amalgamation costs prior to, and in the two to three years subsequent to, amalgamation. These costs then taper off. However, the savings resulting from amalgamation are likely to gradually increase over time through*
> - *greater efficiency (i.e. a reduction in costs through improved economies of scale)*
> - *Improved decision making capability, and*
> - *Improved capacity to deliver services.*

[10] Queensland Treasury Corporation - Review of Amalgamation Costs Funding Submission of Western Downs Regional Council, August 2009

While Western Downs only identified minor potential future benefits, it is likely that benefits will be generated from a reduction in CEO wages, natural attrition and procurement efficiencies etc., while providing existing services at current service standards. It is noted that Western Downs has been able to extend the delivery of certain services across the local government area.

Queensland Treasury also provided comment on the reality that local government is different from businesses and that it can be difficult to measure benefits from mergers on a commercial basis:

Businesses generally undertake amalgamations and mergers on the basis of a number of factors such as cost savings, increased market share, improved synergies and improved decision making capability. Generally, these factors are measured in the context of reduced staff numbers, reduced operating costs, improved profitability, increased market share and higher share prices.

With local government these benefits are more difficult to measure as local governments may utilise savings achieved from improved economies of scale to increase the range and/or to improve the quality of services offered. As a consequence, the cost savings of amalgamation of local governments do not generally show up as improved profitability (i.e. operating surpluses). Similarly, improved decision making capability results in more effective decisions and better outcomes to residents but may not be reflected in a local government's bottom line. This is because local governments, unlike the private sector, are not in the business of making profits. Therefore, it is more difficult to measure the cost savings resulting from amalgamation of local governments than it is for corporations as the benefits will generally be utilised by the amalgamated local government in the provision of services.

Alan Morton in his report titled Outcomes from Major Structural Change of Local Government, which was released in July 2007, estimated administrative cost savings from the Cairns, Ipswich and Gold Coast amalgamations of 1992/93 were between 1.1 per cent and 3.1 per cent. The report also stated that the South Australian Government estimated savings of 3.0 per cent to 5.0 per cent of expenditure resulting from amalgamation.

These estimates focused on administrative efficiency rather than the outcomes achieved through improved local government decision making capability. A potential measure of improved local government capability is ratepayer satisfaction. Alan Morton, together with the company Market Facts, undertook a survey of ratepayers of the five amalgamated local governments in 1992/93. The outcome of this survey was very positive and it indicated that over double the number of ratepayers considered the amalgamations were successful compared to those that thought the amalgamations were unsuccessful. This is considered a good outcome considering the main ratepayer concerns surrounding amalgamation are loss of jobs and loss of access to elected officials. QTC has not been asked to comment on improved capability.

The costs and benefits that Morrison Low has modelled for the possible merger Scenarios are described below.

1 Governance and executive team

The formation of a new entity is likely to produce some efficiencies as the result of a new governance model and rationalisation of the existing executive management teams. For the purposes of this review, the governance category includes the costs associated with elected members, council committees and related democratic services and processes and the executive team.

The table below summarises the expected efficiencies together with the associated timing for governance.

	Staff	Duplicated Services	Elected Members	On Costs
Transition Period	Nil	Nil	Nil	Nil
Short Term (1 to 3 years)	Streamlined Management (General Managers and Directors) Natural attrition (voluntary)	General managers, directors, Mayoral/GM support council/committee secretarial support	Reduced councillors and remuneration	Staff associated costs e.g. HR, accommodation, computers, vehicles
Medium Term (3 to 5 years)	Streamlined Management and staff Natural attrition (voluntary)			Staff associated costs e.g. HR, accommodation, computers, vehicles
Long Term (5 years plus)				

1.1 Governance

The formation of a new entity is expected to result in efficiencies resulting from a new governance model and a reduction in the number of existing mayors and councillors. However, this will depend directly on the adopted governance structure including the number of councillors. Estimated governance costs for the new entity have been based on the councillor fees and expenses of comparator councils as reported in the Annual Report 2015. It is assumed that there would be 12 elected members (for all Scenarios) as this is the largest number of elected members amongst the current councils.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Governance savings	$0.45M	$0.90M	$1.27M

1.2 Executive management

The formation of a single entity is likely to result in efficiencies due to an overall rationalisation in the total number of executive managers required at the Tier 1 (General Managers) and Tier 2 (Directors). Revised remuneration packages for the new general manager and directors for the new entity have been informed and assumed to be similar to that of the comparator council executive remuneration packages, given the size and scale, to that of the proposed new entity.

The general managers' total remuneration for the Councils was based on the Councils' respective Annual Reports 2014/15, and the amalgamation to a single entity with a single general manager.

In addition, there would be a rationalisation of the existing director positions. Based on the Annual Reports there are 21 such positions across the Councils with the combined remuneration based on the Annual Reports 2014/15 of $3.59M. It is assumed the new entities would all retain four director positions, but with changes to responsibilities. Together with the reduction in general managers, this is likely to have an additional savings as shown below.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Executive management saving	$1.33M	$2.53M	$3.52M
Senior Staff (excluding GM)	9	16	21

It is important to note that while ongoing efficiencies have been identified as effective from the short term, there is the one-off cost of redundancies that, in our experience, is a cost incurred during the transition period. This redundancy cost is based on an estimated average of 26 weeks although we note some contracts may have more generous conditions.

1.3 Rationalisation of services

Under the proposed merger scenarios, a number of the existing governance services would be duplicated and there would be an opportunity to investigate rationalising resourcing requirements for a single entity and realise efficiencies in the medium term.

As an example, the Councils currently have the resources necessary to support the democratic services and processes including council and committee agendas and minutes. Under each scenario, there is likely to be a duplication of democratic resources and the new entity would need to determine the number of resources required to deliver this service. The expected efficiencies relative to this area are realised in the Corporate Services section.

Based on our previous experience, we would expect resource efficiencies in a council of this size of between 25% and 40%, however, having regard to the asset base and size of the comparator councils, we do not expect to realise these full benefits in this merger. The reduction in resources is only likely to occur in the medium term due to the form of employment contracts, however, having said that, there is the potential not to replace positions vacated in the short term if they are considered to be duplicate positions under the new entity (natural attrition policy). The expected efficiencies relative to this area are realised in the Corporate Services section.

We have assumed a 25% reduction in these resources having regard to the comparator council and other similar sized councils to the merged entity. We note, however, that a scenario of no reduction in staff is possible based on supporting evidence from the most recent council mergers in NSW and Queensland. We have modelled a 'reduced efficiencies' scenario where no staff savings occur below tiers 1 &2 in our sensitivity analysis.

2 Corporate services

In the formation of a new entity, there is likely to be a reduction in staffing numbers across the corporate services in the medium term. The corporate services provide most of the organisational and corporate activities such as finance and accounting, human resources, communication, information technology, legal services, procurement, risk management, and records and archive management. Across the councils there is likely to be some element of duplication so there should be efficiency opportunities as it relates to administrative processes and staffing levels.

The potential opportunities for efficiency within the corporate services category are summarised in the table below along with the indicative timing of when the efficiency is likely to materialise.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period	Natural attrition (voluntary)	Finance ICT Communications Human Resources Records Customer Services Risk Management			
Short Term (1 to 3 years)	Natural attrition (voluntary)				Staff associated costs e.g. HR, accommodation, computers, vehicles
Medium Term (3 to 5 years)	Streamlined management (Tier 3) Natural attrition (voluntary)				Staff associated costs e.g. HR, accommodation, computers, vehicles
Long Term (6 years plus)					

2.1 Rationalisation of duplicate services

Consistent with the dis-establishment of the councils and the creation of a single entity, there are a number of back office duplicated services that would be replaced, standardised and simplified. The rationalisation and streamlining of back office services means that there would an opportunity to rationalise financial reporting, business systems, administrative processes and staff numbers. Examples for the rationalisation of corporate services include:

- Finance - A reduction in finance service costs with the rationalisation of financial reporting and financial planning with a single, rather than two Resourcing Strategies, Long Term Financial Plans, Asset Management Strategies, Workforce Management Plans , Annual Plans and Annual Reports needing to be prepared, consulted on and printed. In addition the centralisation of rates, accounts receivable, accounts payable and payroll, including finance systems will reduce resourcing requirements and costs.
- Human Resources (HR) – The size of the HR resource would be commensurate with the number of FTEs in the new entity based on industry benchmarks. The number of HR resources would be expected to reduce proportionately to the reduction in organisational staff numbers.
- Communications – The resourcing would be expected to reduce since there would be a single website and a more integrated approach to communication with less external reporting requirements.
- Customer Services – No reduction in the 'front of house' customer services have been assumed on the basis that all existing customer service centres would remain operative under a single entity and the existing levels of service would be retained. However, there is potential to reduce the number of resources in the 'back office' such as the staffing of the call centre.

The potential efficiency in the corporate services category is difficult to determine largely due to the fact that ICT accounts for a large cost through the transition into the new entity, both in terms of resources and actual cost. However, it is expected that an ICT solution would be implemented in the medium term and due to existing employment contracts, the corporate service efficiencies would therefore only be realised in the

medium term. The assumption underpinning the efficiency for corporate services is a 10%[11] reduction in corporate support personnel. On costs are considered to be included as the figures used are based on total employee costs as reported by the councils.

There is the potential to reduce FTE numbers in the short term (40-60 FTE, depending on the number of councils merging) through not replacing positions vacated if they are considered to be duplicate positions through the transition and under the new entity (natural attrition policy). Following the end of the natural attrition period redundancies would be applied to reduce staffing levels outlined above.

In order to achieve the opportunities identified there is a requirement for detailed scoping, investigation and ownership to ensure that they are implemented and realised post amalgamation. The development of a benefit realisation plan would quantify the cost of implementing any identified efficiencies and establish when such efficiencies are likely to accrue.

Redundancy costs have been modelled based on an average of 26 weeks, although we note the maximum varies and that employment contract provisions in individual councils may provide for slightly higher redundancy payments.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Corporate Services Savings	$3.40M	$3.954M	$4.67M

3 Areas for further efficiency

Based on the experience from previous amalgamations in local government, there are other areas where we would expect there to be opportunity to achieve efficiencies. These areas include management, staff turnover, procurement, business processes, property/accommodation, waste and works units.

	Staff	Duplicated Services	Contract/ Procurement	Information Technology	On Costs
Transition Period					
Short Term (1 to 3 years)	Staff turnover	Property/ accommodation Works Units	Printing, stationary, ICT systems/ licences, legal	ICT Benefits	Staff associated costs e.g. HR, accommodation, computers, vehicles
Medium Term (3 to 5 years)	Streamlined management (Tier 3 & 4)	ICT Resourcing	Waste	ICT Benefits	Staff associated costs e.g. HR, accommodation, computers, vehicles
Long Term (5 years plus)					

3.1 Management

The extent of efficiencies for Tier 3 and Tier 4 is directly dependent on the organisational structure of the new entity, types of services and the manner in which these services are to be delivered in the future, i.e. delivered internally or contracted out. It is also affected by the relative classification of senior staff as Directors or Managers.

[11] Securing Efficiencies from the Reorganisation of Local Governance in Auckland, Taylor Duigan Barry Ltd, October 2010

The Auckland amalgamation resulted in an FTE reduction of almost 60%[2] across the total Tier 1 through to Tier 4 positions. While Section 1 addresses the Tier 1 and Tier 2 efficiencies, there is further opportunity for efficiencies in regard to the Tier 3 and Tier 4 managerial positions although these would only be realised in the medium term.

No allowance for Tier 3 and 4 saving have been included to date as this is difficult to estimate without a full review of organisational structure, position descriptions and a profile of Tier 3 and 4 salaries from each council

3.2 Staff turnover

While the industry average turnover is approximately 12%[12] and, on the basis that the new entity adopts a 'natural attrition' policy not to fill positions in the short term, the estimated total efficiency saving over three years, based on applying a modest 1.5% natural attrition is shown in the table below.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Natural attrition through staff turnover	$6.17M	$7.34M	$8.356M

3.3 ICT benefits

Without a full investigation into the current state of the two councils' ICT infrastructure and systems, and without an understanding of the future state, the ICT benefits cannot be quantified at this stage. However, benefits would include improved customer experience, operational cost saving and reduced capital expenditure, higher quality of IT service and increased resilience of service provision. It is also necessary to model a value for the benefits to balance the costs that have been allowed for in the transition.

The operational cost savings and reduction of capital expenditure would be as a direct result of rationalising the number of IT systems, business applications, security and end user support from two councils to a single entity. The cost of IT and the number of staff resources required to support it would be expected to decrease over time. FTEs are assumed to reduce over time in line with reduced IT applications and systems. Without the ICT FTE remuneration for the two councils, the amount of efficiency is unable to be determined at this time. An allowance of 5% of the IT investment has been allowed for, arising in the long term after the systems are implemented.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
ICT Benefits (from 2021)	$0.38M	$1.27M	$1.28M

3.4 Materials and contracts

The opportunity for efficiencies in procurement is created through the consolidation of buying power and the ability to formalise and manage supplier relationships more effectively when moving from two councils to one. An estimate needs to take into account that the councils may currently engage in some collective procurement.

[12] Tasmanian Local Government Workforce Report 2014

The increased scale and size of the infrastructure networks managed by the merged council could, in our view, lead to opportunities to reduce operational expenditure through making better strategic decisions (as distinct from savings arising from procurement).

Based on the analysis during the project and our experience the combined savings have been modelled in the short term at 1% of procurement costs for the first three years.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Materials and contracts savings	$0.49M	$0.98M	$0.98M

3.5 Properties

There is an opportunity to rationalise and consolidate the property portfolio through assessing the property needs of the new entity and disposing of those properties no longer required for council purposes. The rationalisation of buildings in the first instance is likely to be corporate accommodation associated with the reduction in staff, other obvious areas would include the work depots (refer to Section 3.6).

Under the merged council scenarios are assumed that the councils would dispose of 5% of the building assets in the medium term. In the longer term, savings in properties are achievable but should be carried out in a more strategic manner across the combined entity. We note, however, that the addition of the larger more dispersed geographic of Kingsborough is unlikely to generate further savings through property rationalisation.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Property savings	$0.48M	$1.30M	$1.30M

3.6 Works units

Staff

Based on our experience of reviewing a large number of works units across NSW, we have found significant savings in all organisations that we have reviewed. As such, it is reasonable to assume that a reduction in staff in the order of 5% across the works areas will be easily achieved in the medium term to reflect the duplication of services across the depots. Again we note, however, that the addition of Kingsborough is unlikely to generate further savings through rationalisation of works units.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Works Unit staff savings	$1.82M	$2.25M	$2.25M

Redundancy costs have been modelled for all works staff based on an average of 26 weeks, although we note that employment contract provisions in each council may provide for higher redundancy payments.

Following the end of the natural attrition period, redundancies would be applied to reduce staffing levels to those identified above.

Plant and Fleet

Based on our experience of reviewing a large number of works units across NSW, most councils have significantly more plant and equipment than is reasonably required to undertake their day to day functions. As such, it is reasonable to assume that a reduction in plant and fleet in the order of 5% would be achievable should there be an amalgamation of councils. The addition of the larger more dispersed geographic of Kingsborough is unlikely to generate further over and above the two and three council mergers.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Plant and Fleet one off savings	$0.47M	$0.91M	$0.91M

4 Services and service levels

Typically, merged councils see an increase in staff associated with rises in services, service levels and the formation of larger more complex organisations. Research conducted for the Independent Review Panel noted that each of the councils involved in the 2004 NSW mergers had more staff after the merger than the combined councils together[13] and an average over the period of 2002/3 to 2010/11 of 11.7%.

An allowance has been made for a 1.5% increase in staff from year 4 onwards (i.e. after the period of natural attrition) for a period of five years.

5 Transition costs

The formation of the new entity from the current state of the two councils to one will require a transition to ensure that the new entity is able to function on Day 1. This section identifies tasks to be undertaken and estimates transitional costs that are benchmarked against the Auckland Transition Agency (ATA) results and the costs as estimated by Stimpson & Co.[14] for the proposed Wellington reorganisation.

In the transition to an amalgamated entity, there are a number of tasks that need to be undertaken to ensure that the new entity is able to function from Day 1 with minimal disruption to customers and staff. The types of tasks and objectives are summarised in the following table.

[13] Assessing processes and outcomes of the 2004 Local Government Boundary Changes in NSW, Jeff Tate Consulting
[14] Report to Local Government Commission on Wellington Reorganisation Transition Costs, Stimpson & Co., 28 November 2014

Governance	• Developing democratic structures (council committees) • Establishing the systems and processes to service and support the democratic structure • Developing the governance procedures and corporate policy and procedures underlying elected member and staff delegations • Developing the organisational structure of the new organisation
Workforce	• Developing the workforce-related change management process including new employment contracts, location and harmonisation of wages • Establishing the Human Resource capacity for the new entity and ensuring all policies, processes and systems are in place for Day 1 • Ensuring that positions required are filled
Finance and Treasury	• Ensuring that the new entity is able to generate the revenue it needs to operate • Ensuring that the new entity is able to satisfy any borrowing requirements • Ensuring the new entity is able to procure goods and services • Developing a methodology for interim rates billing and a strategy for rates harmonisation • Developing a plan for continued statutory and management reporting requirements • Developing a financial framework that complies with legislative requirements
Business Process	• Planning and managing the integration and harmonisation of business processes and systems for Day 1 including customer call centres, financial systems, telephony systems, office infrastructure and software, payroll, consent processing etc. • Developing an initial ICT strategy to support the Day 1 operating environment that includes the identification of those processes and systems that require change • Developing a longer term ICT strategy that provides a roadmap for the future integration and harmonisation of business processes and systems beyond Day 1
Communications	• Ensuring that appropriate communication strategies and processes are in place for the new entity • Developing a communication plan for the transition period that identifies the approach to internal and external communication to ensure that staff and customers are kept informed during the transition period
Legal	• Ensuring any legal risks are identified and managed for the new entity • Ensuring that existing assets, contracts etc. are transferred to the new entity • Ensuring all litigation, claims and liabilities relevant to the new entity are identified and managed
Property and Assets	• Ensuring that all property, assets and facilities are retained by the new entity and are appropriately managed and maintained • Ensuring the ongoing delivery of property related and asset maintenance services are not adversely impacted on by the reorganisation • Facilitating the relocation of staff accommodation requirements as required for Day 1
Planning Services	• Ensuring the new entity is able to meet its statutory planning obligations from Day 1 and beyond • Ensuring that the entity is able to operate efficiently and staff and customers understand the planning environment from Day 1 • Developing a plan to address the statutory planning requirements beyond Day 1

Regulatory Services	• Ensuring that Day 1 regulatory requirements and processes including consenting, licensing and enforcement activities under statute are in place • Ensuring that business as usual is able to continue with minimum impact to customers from Day 1 and beyond
Customer Services	• Ensuring no reduction of the customer interaction element – either face to face, by phone, e-mail or in writing from Day 1 and beyond • Ensuring no customer service system failures on Day 1 and beyond • Ensuring that staff and customers are well informed for Day 1 and beyond
Community Services	• Ensuring that the new entity continues to provide community services and facilities • Ensuring that current community service grant and funding recipients have certainty of funding during the short term

***Note** - This is not an exhaustive list but provides an indication of the type of work that needs to be undertaken during the transition period.*

The transition costs below are those costs incurred, during the period of transition, to enable the establishment of the new entity and to ensure that it is able to function on Day 1.

5.1 Transition body

In the case of Auckland, the ATA was established to undertake the transition from nine councils to one entity. In order to undertake the transition, the ATA employed staff and contractors and it had other operational costs such as rented accommodation, ICT and communications. The cost of the ATA in 2009 was reported at $36 million and it is important to note that a substantial number of staff were seconded to the ATA from the existing councils to assist with undertaking the transition tasks. The cost of these secondments and support costs was at the cost of the existing councils and not the ATA.

The work undertaken for the reorganisation of Wellington identified the cost of the transition body as $20.6 million[4] and, on the assumption of FTEs to transition body costs for Wellington, the estimated cost of the transition body for the merger scenarios is shown below. This figure may be understated and is dependent on the governance structure adopted and other unknown factors that may influence the cost of the transition body. The cost of staff secondment and support costs from existing councils to the transition body is not included in the cost estimate.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Transition Costs	$5.1M	$6.60M	$7.75M

5.2 ICT

The costs associated with ICT for the new entity relate to rationalising the two existing Councils ICT infrastructure, business applications, security and end user support for the single entity. The full rationalisation of IT systems based on other amalgamation experience will not occur for Day 1 of the new entity and could take anywhere between three to five years to finalise, depending on the complexities of the preferred system. However, there are some critical aspects for the new entity to function on Day 1 including the ability to make and receive payments, procurement and manage staff so there are ICT costs incurred during the transition.

Estimating the costs for ICT is inherently difficult due to the complexities associated with integrating systems and applications, and not knowing what the new entity may decide on as a future system. With the limited time to undertake this report, the ICT costs have thus been based on the proposed Wellington reorganisation. A number of ICT scenarios were explored by Deloitte[15] for Wellington. The ICT cost estimate has been tested with Port Stephens' current ICT provider and it is considered to be a reasonable reflection of likely costs. The estimated cost is split between those costs incurred during the transition and the implementation costs post Day 1 that would be the responsibility of the new entity, giving rise to a range of $5 - $10m for the two council merger and $21 - $30m for the three and four council merger options. The mid-range has been used for modelling purposes.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
ICT Costs	$7.5M	$25.5M	$25.5M

5.3 Business Process (existing council budget)

As part of ensuring the entity is functional on Day 1 is the requirement to redesign the business processes of the existing councils to one that integrates with the ICT systems. This would include the likes of consents, licensing and forms to replace that of the existing Councils. In the case of Auckland, these tasks were largely undertaken by staff seconded to the transition body, the cost of which was not identified as it was a cost picked up by the nine existing councils.

5.4 Accommodation and Branding

The benefits of any merger in the main arise from the co-location of staff and work teams removing inefficiencies such as travelling between offices. The new entity will require to develop or modify its current accommodation as well as develop its own branding. As part of this, a new logo will need to be designed. Once agreed, there will be a need to replace some existing signage of the Councils for Day 1 of the new entity on entry points, streets, buildings, facilities and vehicles. In addition, it will be necessary to replace the existing website, staff uniforms, letterheads, brochures, forms and other items. The estimated cost for branding is based on other amalgamation experience.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Accommodation and Branding	$0.75M	$1.5M	$2.0M

5.5 Redundancy Costs

A reduction in general managers to one for a merged council and reduction of senior contracted staff using a redundancy period of 26 weeks, and based on the councils' respective Annual Reports 2014/15, has been used to calculate the following redundancy costs.

[15] Wellington Local Government Reorganisation Options – Transition Costs and Benefits for Technology Changes, Deloitte, September 2014

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Tier 1 and 2 redundancies	$1.33M	$1.87M	$2.36M

5.6 Remuneration Harmonisation

The remuneration and terms and conditions for staff would need to be reviewed as part of the transition as there is currently a variation in pay rates and conditions across the councils. In order to estimate the cost of wage parity for moving to a single entity, the average employee costs for similar councils have been compared to that of the highest council. It is assumed that employee costs will be equalised at the highest level. It may be possible to adopt a harmonisation approach based on the average staff costs across the merging councils and effectively freeze wages where they are above average costs until everyone reaches parity.

This latter option has been difficult for merging councils to adopt and has other potential negative organisational consequences. For these reasons, we have adopted the highest average staff cost as the likely outcome for each scenario.

	Hobart and Glenorchy	Hobart, Clarence and Glenorchy	Hobart, Clarence, Glenorchy and Kingborough
Remuneration Harmonisation	$1.29M	$6.03M	$9.27M

5.7 Elections

There is a possibility of proportional savings in existing council budgets as, instead of two separate elections, there will be one for the new entity. However, the costs of the election are likely to be higher than for future elections as there will need to be additional communication and information provided to voters to inform them of the new arrangements. The costs will also be dependent on the future governance structure, as was the case in the Auckland amalgamation where the election costs were more than the budgeted amounts from the previous councils. For the purposes of the transition costs, no additional budget has been allowed for, assuming there is sufficient budget in each of the councils.

6.4 Appendix – Assumptions and Calculations Wider Costs and Benefits

Accommodation resources

Accommodation resources effectively include the difference in benefits conferred by the mix of dwellings delivered and the value of land, capital and labour resources required to house the population under each of the alternative development scenarios. It encapsulates the overall area of land consumed by each development scenario for urban purposes, as well as the changing value of this land footprint given the development enabled and the relative amenity levels conferred.

Accommodation resources:

- Account for the relative cost of land acquisition, development and construction required to deliver the housing forms envisaged under each development scenario, as well as the
- Housing prices that are likely to be yielded in different locations, reflecting demonstrated home buyer preferences.

The accommodation resources are calculated as the difference between the total revenue and total costs (including land) required to deliver the housing needs. In summary, SGS used the following equation to estimate the total resources arising from housing consumption in Option 2 merger of 4 councils against Option 1 BAU.

$$change\ in\ surplus_{t,i,h} = (price_{t,i,h} - dwelling\ cost_{t,i,h} - land\ value_{t,i}) \times (project\ case_{t,i,h} - base\ case_{t,i,h})$$

Where, t = year, h = dwelling type, i = LGA

Sales price

Using data from the Real Estate Institute of Tasmania (REIT) SGS estimated the median sale price for detached houses, semi-attached townhouses or villas, and attached units and apartments by LGA for infill and greenfield areas. These estimates were benchmarked to the typical Gross Floor Area (GFA) of a dwelling that sold at the median price in the data. SGS derived sales price per sqm estimates for all LGAs in both infill and greenfield locations.

Construction Costs

Construction costs by dwelling type were sourced from Rawlinsons (2016).

Land values

SGS used REIT suburb reports and market research to create a data set of typical land values for all LGAs. Using ABS data and market research, SGS also estimated typical GFA and land area for each dwelling type. Given the variability in GFA between infill and greenfield locations, SGS used market research to produce assumptions for both infill and greenfield LGAs.

Results

The dwelling forecasts (by dwelling type) under both the business as usual and reform options, were used to estimate total sales revenue and total costs (including land) for each LGA, resulting in the impact on accommodation resources generated by local government reform.

In line with the dwelling forecasts for the business as usual and the reform options, all four LGAs experience an increase in total surplus due to increased development arising from more consolidated urban growth. Table 37 shows that the greatest proportion of benefits will be generated in the Hobart City LGA.

TABLE 37 TOTAL SURPLUS FROM DWELLING CONSUMPTION UNDER OPTION 2 MERGER OF FOUR COUNCILS (PV$ MILLIONS)

	Hobart City	Clarence City	Kingborough	Glenorchy City	TOTAL
Infill	$86	$42	$67	$25	$220
Greenfield	-	-$6	-$13	-$2	-$22
TOTAL	$86	$35	$54	$22	$198

Source: SGS Economics and Planning 2016

Infrastructure costs

The merger of four councils (Option 2) effectively enables a significant proportion of future development to be accommodated in the infill areas of Greater Hobart. Given that there is likely to be available capacity in the infrastructure networks that serve the existing urban areas of Greater Hobart, this transfer of development may generate infrastructure servicing cost savings.

To estimate these savings SGS has undertaken a detailed review of literature that compares infrastructure servicing costs for residential developments in infill vs. greenfield locations within Australasian cities. This review found that:

- Notwithstanding the likelihood of local, case specific, variations, there is strong and consistent evidence that infrastructure can be provided at comparatively lower costs in infill locations than in greenfield locations.
- From the costs that could be compared across studies, infrastructure provision in Greenfield areas locations was found to cost approximately 2-4 times more than infill locations, depending on the capacity of the existing infrastructure to support additional development.

Having said this, precisely estimating the scale of infrastructure cost savings that will be generated by the project scenario is fraught without detailed investigation, given the range of infrastructure networks that act to serve the regional population:

- Transport
- Water & sewerage
- Energy & telecommunications
- Open space
- Health
- Education
- Emergency services

Earlier case studies, shown in Table 38, highlight that per dwelling savings can range considerably.

TABLE 38 INFILL INFRASTRUCTURE COST SAVINGS

Author	Location	Infrastructure cost savings per dwe
Hamilton and Kellet (2015)	Adelaide	$55,000
Centre for International Economics (2015)[19]	Auckland	$15,000
InfraPlan (2013)	Adelaide	$60,000
Trubka, Newman and Bilsborough (2010)	Perth	$85,000
Newman & Kenworthy (1999)	Perth	$140,000

In the interests of conservatism, SGS has assumed that each dwelling that is transferred to infill locations under the project scenario generates a savings of $20,000.

These savings are assumed to accrue in line with future population and dwelling projections in Option 1 BAU, and in line with the forecast denser urban form under Option 2 merger of four councils.

[19] Excludes utilities, emergency services, health and education.

Transport functionality

Transport functionality outcomes include travel time (and congestion), travel distance (e.g. vehicle operating) costs, and accident costs.

Option 2 merger of four councils effectively enables a significant proportion of future development to be accommodated in the infill areas of Greater Hobart. This higher concentration of development in infill areas allows population and jobs to be situated in closer proximity. This reduces the length and time of transport trips, decreases congestion, and reduces the prevalence of car accidents.

To estimate transport functionality outcomes of these impacts the Greater Hobart Urban Travel Demand Model (GHUTDM) was used to model travel demand of Option 1 BAU and Option 2 merger four councils.

The transport demand modelling demonstrates that a greater concentration of population and jobs in infill areas under Option 2 results in the average trip distance by car decreasing by 0.1 km, average travel time reducing by 0.8 minutes, and the average travel speed increasing by 2.1 km per hour. Overall, daily kilometres travelled in cars is reduced by 99,000 and total time spent in cars commuting falls by 3,039 hours per day[20]. These results are shown in Table 39.

TABLE 39 DAILY CAR TRIPS 2037

Daily car trips	BAU scenario	Project scenario	Daily Change
Total distance travelled by car	5,579,646 km	5,480,303 km	-99,343 km
Total time commuting by car	124,706 hours	121,667 hours	-3,039 hours
Average trip distance	10.7 km	10.6 km	-0.01 km
Average trip travel time	14.4 minutes	13.6 minutes	-0.8 minutes
Average travel speed	44.7 km/h	46.8 km/h	+2.1 km/h

Source: SGS Economics and Planning 2016, GHUTDM 2016

Changes in vehicle kilometres and hours travelled by truck and buses were also modelled with:

- Daily truck movements increasing by 338 kilometres compared to Option 1. However daily hours spent driving fell by 50, demonstrating that there is less congestion in the road network.
- Daily bus kilometres travelled fell by 2,700 and hours spent commuting on public transport fell by 133 even though total daily boardings increased by 259. This indicates that there are more passengers using bus transport than under BAU, but average journey times and distances are reduced due to the more concentrated urban form.

Benefit estimation

These modelled reductions in overall kilometres travelled and hours spent commuting represent improved transport functionality and are converted to quantifiable benefits via avoided travel time costs, avoided vehicle operating costs, and avoided accident costs as outlined by the Australian Transport Assessment and Planning (ATAP) Guidelines, as shown in Table 40. Vehicle operating costs refer to the costs borne by the operator to the cover expenses that vary by kilometres travelled including fuel, tires, maintenance, fees and charges, and depreciation. Travel time costs refer to the opportunity cost of the time the traveller spends on their journey. Accident costs refer to the cost to society of motor vehicle accidents.

[20] Per weekday. For weekends it was assumed distance travelled and hours commuting are 80% of total weekday based on Commonwealth of Australia, 2015. Traffic and congestion cost trends for Australian capital cities

TABLE 40 TRANSPORT FUNCTIONALITY ASSUMPTIONS

	Value	Source
Commuter travel time costs	$15.84 per hour	ATAP 2013
Car operating costs – Option 1	40.9c per vehicle km	ATAP 2013
Car operating costs – Option2*	39.6c per vehicle km	ATAP 2013
Accident costs	24.8c per vehicle km	ATAP 2013

*Car operating costs are lower in Option 2 due to the increase in average travel speed.
Source: SGS Economics and Planning 2016, Transport and Infrastructure Council 2016, Australian Transport Assessment and Planning Guidelines, PV2 Road Parameter Values, from 2013 with prices escalated to 2016 prices using relevant ABS Consumer Price Indices.

Health benefits of active transport

Option 2 allows Greater Hobart to develop in a more compact form with jobs and population being closer together than under Option 1 BAU. This allows more residents to use active transport methods to commute to work. This hypothesis was tested using the GHUTDM to see the impacts on traffic flow across Greater Hobart via different modes.

A comparison of Option 1 BAU and Option 2 daily trips by mode modelling results is outlined in Table 41.

TABLE 41 DAILY TRIPS BY TRANSPORT MODE 2037

Daily trips by mode	Option 1 BAU	Option 2 merger 4 councils	Daily Change
Car	519,731	516,519	-3,212
Public transport	28,131	28,380	+249
Bicycle	7,209	7,296	+87
Walk	94,703	97,156	+2,453

Source: SGS Economics and Planning 2016, GHUTDM 2016

The GHUTDM results show that with a more compact urban form under Option 2, daily car trips are reduced by 3,212. This is accompanied by more commuters shifting to active modes of transport, with an additional 2,453 daily walking trips, 249 more trips on public transport and an additional 87 daily bicycle trips.

Commuters who use active travel methods tend to be healthier than people who are relatively inactive or sedentary and suffer less from medical conditions that reduce their life expectancy. This reduces demand on the health system for diagnosis, surgery and recovery.

Benefit estimation

According to the Australian Transport Assessment and Planning (ATAP) Guidelines[21], active travel, including walking and cycling, can contribute to minimising risks of cardiovascular disease, Type 2 diabetes, some cancers and osteoporosis. It can also assist with managing obesity, high blood pressure and high cholesterol. There are also mental health benefits as physical activity can improve self-esteem and confidence, and reduce stress, anxiety, fatigue and depression. Active modes of transport also allow people to feel more connected to the environment around them.

The ATAP assessment parameters state that shifting a commuter to an active transport method results in a weighted active health benefits of $1,526 per annum per person.

An important factor to note is that the GHUTDM did not introduce any new public transport networks or services when modelling Option 2. This means that there are no additional costs associated with

[21] Australian Transport Assessment and Planning Guidelines, 2013, with prices escalated to 2016 prices using relevant ABS Consumer Price Indices.

changes to public transport vehicle kilometres travelled, and that the additional daily boardings are assumed to be absorbed into the existing network.

Environmental performance

Research shows that rates of household energy and water consumption are influenced by dwelling type[22]. Dwellings of different types will achieve different outcomes in terms of environmental performance, influencing the overall performance of the different options.

Variation in transport usage and demand associated with differing built form outcomes can also have an environmental impact, with changes to pollution, emissions and landscape damage.

Using the differences in mix of dwelling types and location of jobs and population projected in the business and usual and the reform options to 2037, the difference in environmental performance between the options has been quantified. Two key factors were assessed:

1. Household resource consumption, and
2. Environmental externalities associated with car use.

Environmental externalities of car use include:

- **Air pollution.** Fossil fuel powered transport creates air pollution in the surrounding environment. Air pollution impacts of vehicles are considered to cause adverse effects on human health, damage to buildings, and/or crop losses.
- **Greenhouse gas emissions.** Greenhouse gas emissions are global in nature and are captured in the earth's atmosphere, they are therefore treated separately from air pollution which is a localised impact.
- **Noise pollution.** Noise pollution is a localised externality of car transport impacting upon the community and the amenity of places.
- **Nature and landscape.** Nature and landscape externality costs are applied if there is a change in land use to allow for car transport such as the construction of roads to allow for further greenfield expansion. Nature and landscape impacts include habitat loss and fragmentation.
- **Urban separation.** Urban separation is caused by roads and car traffic creating urban barrier effects restricting pedestrians' ability to freely move around the urban landscape.

Benefit estimation

Levels of resource consumption by current and future dwellings across Greater Hobart were estimated using benchmarks established by the Independent Pricing and Regulatory Tribunal (IPART), and a report produced by PwC for the International Emissions Trading Association (Table).

The environmental performance of the transport system under both scenarios was estimated using results from the GHUTDM, with the cost of the environmental externalities of car use calculated using the Australian Transport Council (ATC) National Guidelines (Table).

[22] See IPART 2011, 'Determinants of residential energy and water consumption in Sydney and surrounds – regression analysis of the 2008 and 2010 IPART household survey data', Electricity, Gas and Water – Research Report.

TABLE 40 VALUES FOR MONETISING ENVIRONMENTAL OUTCOMES

	Value	Source
Household energy consumption	1.59c per kg CO2	PwC 2015
Household water consumption	$2.28 per kL	IPART 2015
Car GHG Emissions	0.39 per vehicle km	ATC 2006
Air pollution	3.22c per vehicle km	ATC 2006
Noise	1.03c per vehicle km	ATC 2006
Water pollution	0.49 per vehicle km	ATC 2006
Nature and landscape	0.43 per vehicle km	ATC 2006
Urban separation	0.74 per vehicle km	ATC 2006

Source: SGS Economics and Planning, 2015; PwC 2015, 'GHG Market Sentiment Survey 2015', for the International Emissions Trading Association (IETA); Independent Pricing and Regulatory Tribunal (IPART) 2015, 'Fact Sheet: Water and sewerage charges and typical customer bills from 1 July 2015'; Australian Transport Council 2006, National Guidelines for Transport System Management in Australia, Volume 3, Canberra; Australian Bureau of Statistics 2016, 6401.0 Consumer Price Index, Australia

Agglomeration economies

Agglomeration economies relate to the productivity enhancements that firms gain from locating in an area of relatively dense economic activity. These benefits stem from a variety of factors including:

- The ability to achieve economies of scale and scope through specialisation given the large numbers of potential customers that are readily accessible
- The availability of numerous supply sources and potentially specialised infrastructure, and the competitive environment that stems from this, and
- Access to a deep and diverse pool of skilled labour, often complemented by high levels of technological/ knowledge transfer between firms, which helps bolster innovation.

When attempting to measure agglomeration economies two drivers are relevant. The first is the scale of the urban region, i.e. the larger the urban region, the higher the productivity. The second is related to the actual spatial organisation of the urban region, i.e. the ease at which firms can interact with each other. This second element of agglomeration is relevant when assessing the impacts associated with a denser urban form for Greater Hobart.

To measure the generation of agglomeration economies, SGS has utilised the effective job density (EJD) conferred by the alternative scenarios. In essence EJD is an indexed measure of each location's actual accommodation of jobs combined with its relative (travel time based) access to all other jobs in the region. That is, the higher an area's EJD, the more jobs that can be effectively reached from its location.

Experience elsewhere has shown that there is a predictable relationship between EJD and labour force productivity. SGS has applied these established relationships by industry, i.e. as is evident in Sydney, Melbourne and Adelaide, to Grater Hobart's on an industry by industry basis.

This change in EJD resulted in gross value add uplifts (or decreases) for the five industry types analysed, as shown in Table 421.

TABLE 42 GROSS VALUE ADD UPLIFT BY INDUSTRY GROUP - OPTION 2

	Services	Industry	Education	Entertainment	Retail
GVA Uplift	+$680,000	+140,000	+$70,000	-$160,000	-$970,000

Source: SGS Economics and Planning 2016

The EJD analysis revealed that due to the denser urban form in Option 2, the GVA uplift for service industries, which includes professional and scientific services and health care, through to hairdressers and gardeners, was the most significant. Industry, including manufacturing, and education also experienced GVA uplifts from a denser urban form.

These uplifts were however cancelled out by reductions in GVA in the entertainment and retail industry groups. In the business-as-usual case (Option 1) much of the jobs growth for these industries is centred at the Hobart airport and at Cambridge. Under Option 2, a portion these new jobs were redistributed to the Hobart waterfront and CBD, central Kingston, Rosny and the infill corridor in Glenorchy. Due to the higher dispersal of these jobs in Option 2, their respective EJDs decreased.

Tourist yield improvements

Tourism plays an important role as a major driver of economic activity in the Greater Hobart economy. Management and promotion of the tourism industry are expected to be more integrated and effective at the regional level under the local reform options.

Under Option 1, the business as usual case, it is assumed visitor nights to Hobart will increase in line with Tourism Research Australia forecasts for Hobart. For Option 2, it has been assumed that due to the enhanced management and promotion of Hobart as an internationally significant tourist destination, visitor tourist nights in Hobart will increase in-line with the growth rate of tourist nights across Australia[23]. This represents the enhanced ability of the City to market itself in a competitive market place and attract tourists in line with the rest of the country. It also represents the metropolitan wide management of the tourist industry being better placed to manage the increase in tourist arrivals.

Benefit estimation

The economic benefit of tourism on the Hobart economy is estimated using the daily average spending by domestic and international visitors[24], and the cost of servicing tourists, as outlined in Table 43.

TABLE 43 TOURISM YIELD VALUE OF ASSUMPTIONS

	Option 1 BAU	Option 2 merger four counc
Total visitor nights (2016)	6.1 million	6.1 million
Total visitor nights (2037)	13.2 million	13.6 million
Average spend per night (domestic visitor)	$229	$229
Average spend per night (international visitor)	$127	$127
Cost of servicing tourists	80%	80%

Source: SGS Economics and Planning, Tourism Research Australia forecasts (2016) and regional profile (2015)

The cost of servicing tourists is assumed to be equal to 80% of total spending. This reflects that when visitors spend money, they expect goods and services in return. These goods and services use resources that need to be redirected from elsewhere and cost money to provide; the resources required to service this additional demand represents an opportunity cost to the Greater Hobart economy.

The benefit to Greater Hobart is not the amount visitors spend, but the difference between what visitors pay and the opportunity costs of providing those goods and services. SGS estimates that the opportunity costs are close to 80% of total visitor expenditures.

By subtracting the cost of servicing tourists from the total tourism spending the tourism yield is calculated.

[23] As forecast by Tourism Research Australia, 2016
[24] Tourism Research Australia, 2015. Tourism Region Profile - Hobart and the South, Tasmania.

6.5 Appendix – Risk register

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
BAU	1. Inability to meet the changing and increasing community needs.	Inability to meet the changing and increasing community needs. All councils generally agree community needs are becoming more complex. Typical drivers are ageing of population, socio-economic issues, reduced (external, or non-rates) income sources and climate change mitigation and adaptation. Without significant opportunities for efficiencies and service improvements, Councils are at risk of not being able to meet the changing needs of the community.	2	D	Decreasing service levels. Financial sustainability at risk.	H	Effective strategy and culture to improve efficiencies. Initiate additional shared service arrangements	U	Councils
BAU	2. Inability to continuously improve efficiencies and service delivery.	Inability to continuously improve efficiencies and service delivery.	2	D	Stagnating or decreasing service levels	H	Initiate additional shared service arrangements	U	Councils
all 4	3. Escalation of transitioning process costs and time	Escalation of transitioning process costs and time. The transitioning process of a merger can be costly time and consuming and is of risk of escalating.	2	D	Higher costs than anticipated, lower levels of community satisfaction, vulnerability to anti-merger campaigns	H	A thoroughly mapped and planned process of transition. Also, proposed mergers must meet minimum levels of community support. Community engagement is a key element of a local government reform process. Mergers that are voluntary (e.g. Geraldton – Greenough WA) or at least amicably negotiated (e.g. Onkaparinga SA) have reservoirs of goodwill that can assist and reduce costs in the transition process (Tilley and Dollery, 2010).	U	Merged entity
3	3. Escalation of transitioning process costs and time	Escalation of transitioning process costs and time. The transitioning process of a merger can be costly and it also takes time and is of risk of escalating.	2	D	Higher costs than anticipated, lower levels of community satisfaction, vulnerability to anti-merger campaigns	H	A thoroughly mapped and planned process of transition. Also, proposed mergers must meet minimum levels of community support. Community engagement is a key element of a local government reform process. Mergers that are voluntary (e.g. Geraldton – Greenough WA) or at least amicably negotiated (e.g. Onkaparinga SA)	U	Merged entity

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
							have reservoirs of goodwill that can assist and reduce costs in the transition process (Tilley and Dollery, 2010).		
2	3. Escalation of transitioning process costs and time	Escalation of transitioning process costs and time. The transitioning process of a merger can be costly and it also takes time and is of risk of escalating.	3	D	Higher costs than anticipated, lower levels of community satisfaction, vulnerability to anti-merger campaigns	H	A thoroughly mapped and planned process of transition. Also, proposed mergers must meet minimum levels of community support. Community engagement is a key element of a local government reform process. Mergers that are voluntary (e.g. Geraldton – Greenough WA) or at least amicably negotiated (e.g. Onkaparinga SA) have reservoirs of goodwill that can assist and reduce costs in the transition process (Tilley and Dollery, 2010).	U	Merged entity
all 4	4. Loss of local representation	Loss of local representation. The merged entity will have a lower per capita number of Elected representatives and this may result in a loss of local representation. Vice versa it can be argued that the quality and expertise of the Elected Members is likely to increase, resulting in potentially better outcomes in terms of local representation.	2	C	Mismatching service needs and delivery. Community dissatisfaction	H	Temporary wards and/or creating new opportunities for community engagement and empowerment	A	Merged entity
3	4. Loss of local representation	Loss of local representation. The merged entity will have a lower per capita number of Elected representatives and this may result in a loss of local representation. Vice versa it can be argued that the quality and expertise of the Elected Members is likely to increase, resulting in potentially better outcomes in terms of local representation.	3	C	Mismatching service needs and delivery. Community dissatisfaction	M	Temporary wards and/or creating new opportunities for community engagement and empowerment	A	Merged entity
2	4. Loss of local representation	Loss of local representation. The merged entity will have a lower per capita number of Elected representatives and this may result in a loss of local representation. Vice versa it can be argued that the quality and expertise of the Elected Members is likely to increase, resulting in potentially better outcomes in terms of local representation.	4	C	Mismatching service needs and delivery. Community dissatisfaction	M	Temporary wards and/or creating new opportunities for community engagement and empowerment	A	Merged entity

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
all 4	5. Inability to meet the needs of communities of interest (deterioration of service levels)	An inability to meet the needs of communities of interest may result in deterioration of service levels. The merged entity will represent a larger and more diverse community and the risk exists that understanding of and connections with communities of interest start to attenuate.	3	C	Decreasing levels of service satisfaction rates	M	Ensure existing service levels are at least retained. Wards as a means to ensure connectedness with and understanding of the local community.	A	Merged entity
3	5. Inability to meet the needs of communities of interest (deterioration of service levels)	An inability to meet the needs of communities of interest may result in deterioration of service levels. The merged entity will represent a larger and more diverse community and the risk exists that understanding of and connections with communities of interest start to attenuate.	4	C	Decreasing levels of service satisfaction rates	M	Ensure existing service levels are at least retained. Wards as a means to ensure connectedness with and understanding of the local community.	A	Merged entity
2	5. Inability to meet the needs of communities of interest (deterioration of service levels)	An inability to meet the needs of communities of interest may result in deterioration of service levels. The merged entity will represent a larger and more diverse community and the risk exists that understanding of and connections with communities of interest start to attenuate.	5	C	Decreasing levels of service satisfaction rates	M	Ensure existing service levels are at least retained. Wards as a means to ensure connectedness with and understanding of the local community.	A	Merged entity
all 4	6. Legacy issues undermining the financial performance of the new entity	Legacy issues undermining the financial performance of the new entity. The merged entity will consolidate the previous entities. If there are any hidden financial, risk or asset management issues, the merged entity may 'inherit' these issues which can undermine the expected returns of the merger process.	3	C	Unexpected expenditures and lower than anticipated merger savings.	M	Rigorous due diligence assessment and incorporation of results in merger plan, KPI and expectations	U	Merged entity
3	6. Legacy issues undermining the financial performance of the new entity	Legacy issues undermining the financial performance of the new entity. The merged entity will consolidate the previous entities. If there are any hidden financial, risk or asset management issues, the merged entity may 'inherit' these issues which can undermine the expected returns of the merger process.	3	C	Unexpected expenditures and lower than anticipated merger savings.	M	Rigorous due diligence assessment and incorporation of results in merger plan, KPI and expectations	U	Merged entity
2	6. Legacy issues undermining the financial	Legacy issues undermining the financial performance of the new entity. The merged entity will consolidate the previous	3	C	Unexpected expenditures and lower than	M	Rigorous due diligence assessment and incorporation of results in merger plan, KPI and expectations	U	Merged entity

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
	performance of the new entity	entities. If there are any hidden financial, risk or asset management issues, the merged entity may 'inherit' these issues which can undermine the expected returns of the merger process.			anticipated merger savings.				
all 4	7. Different organisational cultures	Different organisational cultures. The merged entity will bring together staff and organisational cultures of the previous councils. Bringing these together may result in cultural conflicts, mutual misunderstanding and power play.	2	D	Synergies and efficiencies are not optimised. Delay in transitioning process and related costs.	H	A thoroughly mapped and planned process of transition, which considers cultural differences.	I	Merged entity
3	7. Different organisational cultures	Different organisational cultures. The merged entity will bring together staff and organisational cultures of the previous councils. Bringing these together may result in cultural conflicts, mutual misunderstanding and power play.	2	D	Synergies and efficiencies are not optimised. Delay in transitioning process and related costs.	H	A thoroughly mapped and planned process of transition, which considers cultural differences.	I	Merged entity
2	7. Different organisational cultures	Different organisational cultures. The merged entity will bring together staff and organisational cultures of the previous councils. Bringing these together may result in cultural conflicts, mutual misunderstanding and power play.	2	D	Synergies and efficiencies are not optimised. Delay in transitioning process and related costs.	H	A thoroughly mapped and planned process of transition, which considers cultural differences.	I	Merged entity
all 4	8. Unrealistic expectations about outcomes, especially in regards to efficiency savings	Unrealistic expectations about outcomes, especially in regards to efficiency savings. Unrealised expectations may result in dissatisfaction, low morale and political turmoil, potentially even in attempts to rollback the merger which would be accompanied by additional costs (financial and other).	3	B	Unmet expectations and consequential need to adjust strategic plans and budgets.	M	Set realistic KPIs and communicate these frequently		Merged entity
3	8. Unrealistic expectations about outcomes, especially in regards to efficiency savings	Unrealistic expectations about outcomes, especially in regards to efficiency savings. Unrealised expectations may result in dissatisfaction, low morale and political turmoil, potentially even in attempts to rollback the merger which would be	3	B	Unmet expectations and consequential need to adjust strategic plans and budgets.	M	Set realistic KPIs and communicate these frequently		Merged entity

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
		accompanied by additional costs (financial and other).							
2	8. Unrealistic expectations about outcomes, especially in regards to efficiency savings	Unrealistic expectations about outcomes, especially in regards to efficiency savings. Unrealised expectations may result in dissatisfaction, low morale and political turmoil, potentially even in attempts to rollback the merger which would be accompanied by additional costs (financial and other).	3	B	Unmet expectations and consequential need to adjust strategic plans and budgets.	M	Set realistic KPIs and communicate these frequently		Merged entity
SA	9. Failure of a Capital City Act to be enacted	Failure of a Capital City Act to be enacted. The Capital City Act is the means to ensure all councils and State Government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out.	3	E	Varies by option. Impact most significant for Strategic Alliance, resulting in an inability to deliver on strategic initiatives	E	Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.	I	State
all 4	9. Failure of a Capital City Act be enacted	Failure of a Capital City Act to be enacted. The Capital City Act is the means to ensure all councils and State Government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out.	3	C	Varies by option. Impact most significant for Strategic Alliance, resulting in an inability to deliver on strategic initiatives	M	Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.	U	Councils / State
3	9. Failure of a Capital City Act to be enacted	Failure of a Capital City Act to be enacted. The Capital City Act is the means to ensure all councils and State Government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out.	3	D	Varies by option. Impact most significant for Strategic Alliance, resulting in an inability to deliver on strategic initiatives	H	Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.	I	State

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
2	9. Failure of a Capital City Act to be enacted	Failure of a Capital City Act to be enacted. The Capital City Act is the means to ensure all councils and State Government commit to addressing issues of capital city region relevance. Without the Act the strategic objectives are at risk of failing with participating councils having the ability to opt out.	3	D	Varies by option. Impact most significant for Strategic Alliance, resulting in an inability to deliver on strategic initiatives	H	Collaborate with State Government and develop a business case for the Capital City Act. Use lobbying to influence political sphere.	I	State
SA	10. Inability to agree on common directions in regards for strategic initiatives for the entire Greater Hobart area (encompassing the existing four Council areas)	Inability to agree on common directions in regards for strategic initiatives. This is especially true in case of a strategic alliance and mergers that does not involve all four councils.	2	D	Inability to deliver on strategic initiatives	H	Establishing an early MoU, fostering a culture that aims to look at the greater good, carefully designed process for plan making, engaging independent advice where applicable	I	Councils
3	10. Inability to agree on common directions in regards for strategic initiatives for the entire Greater Hobart area (encompassing the existing four Council areas)	Inability to agree on common directions in regards for strategic initiatives. This is especially true in case of a strategic alliance and mergers that does not involve all four councils.	4	D	Inability to deliver on strategic initiatives	H	Establishing an early MoU, fostering a culture that aims to look at the greater good, carefully designed process for plan making, engaging independent advice where applicable	I	Merged entity and individual Council
2	10. Inability to agree on common directions in regards for strategic initiatives for the	Inability to agree on common directions in regards for strategic initiatives. This is especially true in case of a strategic alliance and mergers that does not involve all four councils.	3	D	Inability to deliver on strategic initiatives	H	Establishing an early MoU, fostering a culture that aims to look at the greater good, carefully designed process for plan making, engaging independent advice where applicable	I	Merged entity and individual Councils

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
	entire Greater Hobart area (encompassing the existing four Council areas)								
all 4, 3, 2	11. Important decisions to achieve efficiency savings are not implemented by the new entity Council	"Important decisions to achieve efficiency savings are not implemented by the new entity Council. The expected savings and service improvements depend on the extent to which the new entity is willing and able to make decisions that enable savings and improvement. In NSW, State legislation puts stringent limitations on staff reductions / redundancies and place of work. In Tasmania there are no set limitations. The Governor has the power, as a result of any review, by order and on the recommendation of the Minister, to make an order in relation to appropriate savings and transitional matters; and employees of a council involved/established as a result of a merger.	1	D	Lower or negative financial savings due to reform than initially anticipated. Severity of impact depends on the extent to which decisions are not made.	E	Effective transitional arrangements	I	Merged entity
all 4, 3, 2	12. Council is unable to dispose of excess assets	Council is unable to dispose of excess assets. As part of a merger, there will likely be efficiencies in relation to assets held, such as the number of graders and depots. There is a risk the assets may not be sold at the asset value.	3	B	Lower or negative financial savings due to reform than initially anticipated. Severity of impact depends on the extent to which assets are not sold	M	Sell assets at lower value than anticipated		Merged entity
all 4, 3, 2	13. Rates equalisation and the risk to rates revenue	Rates equalisation and the risk to rates revenue. Under the merged entity there may be a drive to equalise rates levels across the new entity's geographic area. There is a risk this may result in lower Council revenue, assuming no rate payers will be made worse off.	2	C		H	Effective transitioning strategy for rates equalisation (stages approach)	A	Merged entity

Option	Risk ID	RISK - Description	Likelihood	Impact score	Impact	Raw R	Risk Response	Effectiveness Ra	Risk Owner
all 4, 3, 2	14. Service levels and costs skew towards the highest service levels	Service levels and costs skew towards the highest service levels. As part of a merger, there is often a drive to equalise service levels. Experience elsewhere shows, the tendency is for service levels to skew to the highest level (of the pre-existing councils), and so will the costs of service delivery.	2	D	Efficiency savings are not achieved	H	Effective transitioning strategy	U	Merged entity
all 4	15. Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other	Operations of the new entity continue from diverse locations, and ICT is not optimally used to overcome distance and isolation of services from each other. As part of the merged entity, operations would be assumed to over time merge into one location from an efficiency point of view. There are often impediments of this occurring, either legislative or community driven. For instance, West Tamar Council continues to operate at least some of its services from a number of locations.	1	D	Synergies and efficiencies savings are not optimised	E	Roll out and implementation of ICT infrastructure, implement strategy for the consolidation of work locations	A	Merged entity

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