



1 September 2020

The Secretary
TasWater Operations Select Committee
Legislative Council
Parliament House
HOBART TAS 7000

Email: tw@parliament.tas.gov.au

Dear Sir/Madam

TASWATER OPERATIONS SELECT COMMITTEE

Devonport City Council appreciates the opportunity to provide input to the Legislative Council's Select Committee into TasWater operations.

In particular, Council wish to provide comment in relation to item 5 within the Terms of Reference – 'the effect of TasWater dividend policy on local government revenue'.

Dividend returns from TasWater are an essential income source for Council and are used to fund important community services.

Devonport City Council's dividend was in the order of \$1.6M or 4% of total income until the agreed dividend reduction and ongoing freeze applied in response to the Government's proposal to take over ownership in 2018.

As a result of this reduction, Council's dividend reduced to \$1.1M in 2019/20, however still made up approximately 3% of total Council revenue.

The non-payment of 50% of the budgeted 19/20 dividend and the unlikely payment of any of the 20/21 dividend has been the single biggest factor in Council incurring a underlying deficit result of \$1.0M for 19/20 and budgeting for a further deficit of \$2.2M in 20/21. Reasonable levels of cash reserves have allowed Council to carry this deficit whilst continuing to deliver the required services to the community. This is not sustainable long term and Council will have no choice other than to cut valued community services if revenue streams are not recovered.

Whilst Council understand requirements on TasWater to operate as a business, and in accordance with relevant legislation, the consideration of TasWater dividend payments as nothing more than distributing profit to shareholders, fails to recognise the historic relationship between Local Government and the Water and Sewerage Corporation.



TasWater was created through the removal of billions of dollars of water and sewerage assets from councils in 2009. In the case of Devonport City Council, water and sewerage assets with a value of approximately \$145M were transferred to the newly legislated Water and Sewerage Corporation.

During the mid-2000's councils were required to comply with National Competition Policy through State based guidelines pressuring councils to ensure water and sewerage pricing reflected full cost recovery with appropriate margins to generate a commercial return on assets. The under-pricing of water and sewerage by the local government sector and the resulting inability to generate sufficient return, was one of the justifications in introducing the reform agenda. The assets were taken from councils with the promise of equity in a new company which would, as a priority, ensure true cost recovery and a fair return to owner councils.

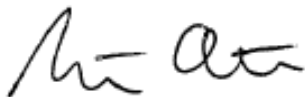
Council's financial statements for the financial year ending 2008 note water and sewerage activities as returning a surplus (after depreciation) of \$2.6M (7% of total income). Whilst this was still considered an insufficient return on assets under the Government Pricing Oversight Commission, the return has gradually reduced ever since to the current position, where priorities of the Corporation have resulted in councils not receiving any dividend payments.

Over a 12-year period the return from water and sewerage activities for the Devonport City Council has reduced from \$2.6M (\$3.4m in today's dollars) to currently zero. This has increased the burden on rate payers to fund the continuation of necessary community services.

Council would put to the Select Committee that the return to owners should be considered more than simply a dividend and a minimum return should be legislated in recognition of the transferred assets on which the Water & Sewerage Corporations were established. In return, this will protect important Council revenue streams to fund valuable community services.

Please do not hesitate to contact me if you have any queries in regard to this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Matthew Atkins', written in a cursive style.

Matthew Atkins
GENERAL MANAGER