



**Tasmanian**  
Audit Office

# **Water and sewerage in Tasmania: Assessing the outcomes of industry reform**

Report of the Auditor-General

No. 2 of 2017-18

# Today's presentation

- Objective and scope of the audit
- Audit approach
- Auditor-General's conclusions
- Major themes of the audit including Auditor-General's recommendations:
  - Water – public health
  - Sewage - environment
  - Asset management
  - Financial benefits
  - Customer service

# Objective and scope of the audit

**Objective** To form conclusions on the extent to which the intended outcomes arising from the reforms of the water and sewerage industry have been achieved.

**Scope** The performance of councils (to 2009), regional corporations (2009 to 2013) and TasWater (from 2013).

# Audit approach

- Data analysis
- Examination and verification of internal and external reports
- Review of strategic and annual planning processes and documents
- Discussions with TasWater staff
- Discussions regarding industry performance with regulators and appropriate stakeholders

# Auditor-General conclusions

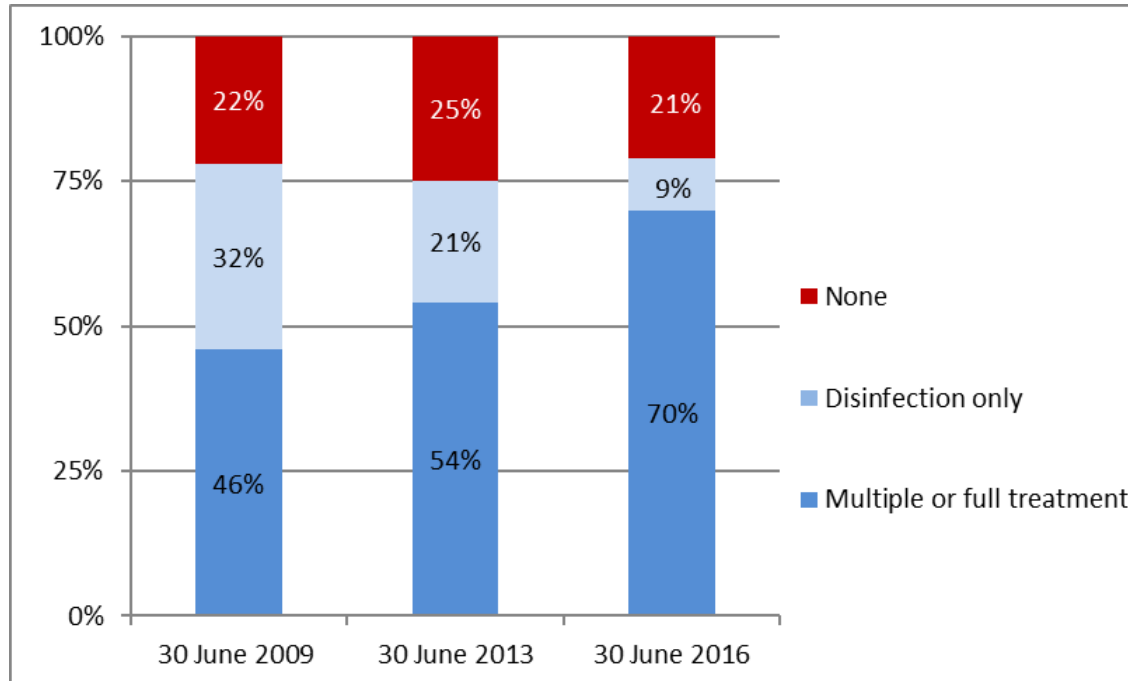
- Improved public health benefits but not environmental benefits
- Improved strategic asset management
- Largely delivered financial benefits
  - two-part pricing provided equitable pricing
  - greater flexibility to deal with the capital expenditure program
  - not taken advantage of improved capacity to service debt by drawing on additional borrowings to accelerate infrastructure investment
- Broadly improved customer service, delivery and relations

# Public health

The audit assessed whether compliance with water quality standards improved since 2009

# Public health

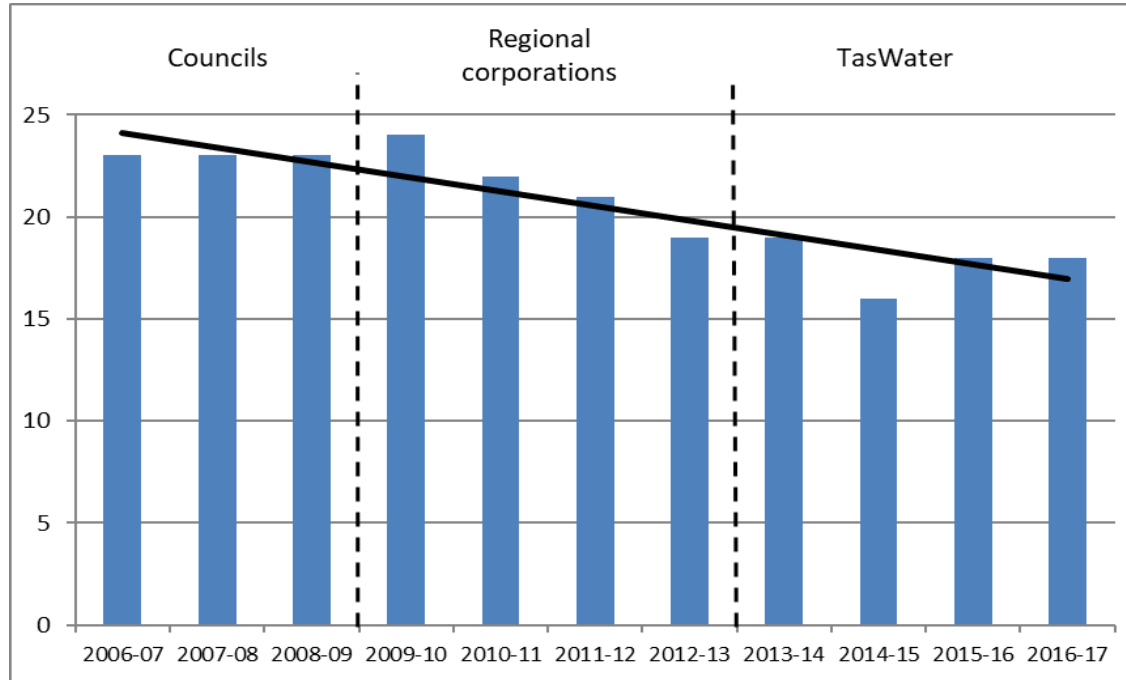
## Drinking water supplies treatment processes



Source: DHHS

# Public health

## Permanent boil water alerts



Source: DHHS



# Public health

We found that:

- Compliance with applicable water quality standards has improved since 2009 in:
  - Water treatment processes
  - Microbiological sampling compliance (decline since 2013-14)
  - Microbiological compliance (decline since 2013-14)
  - Percentage of population receiving fluoridated water
  - Number of Public Health Alerts
  - Percentage of population receiving compliant water

# Public health

We found that (cont.):

- The number of permanent boil water alerts reduced since 2009 and affect less of the population.
- Significant long-term health benefits have been achieved since 2009.
- Significant long-term health benefits have been achieved more quickly since 2013 except in microbiological sampling compliance and microbiological compliance

# Public health

## **Recommendation 1**

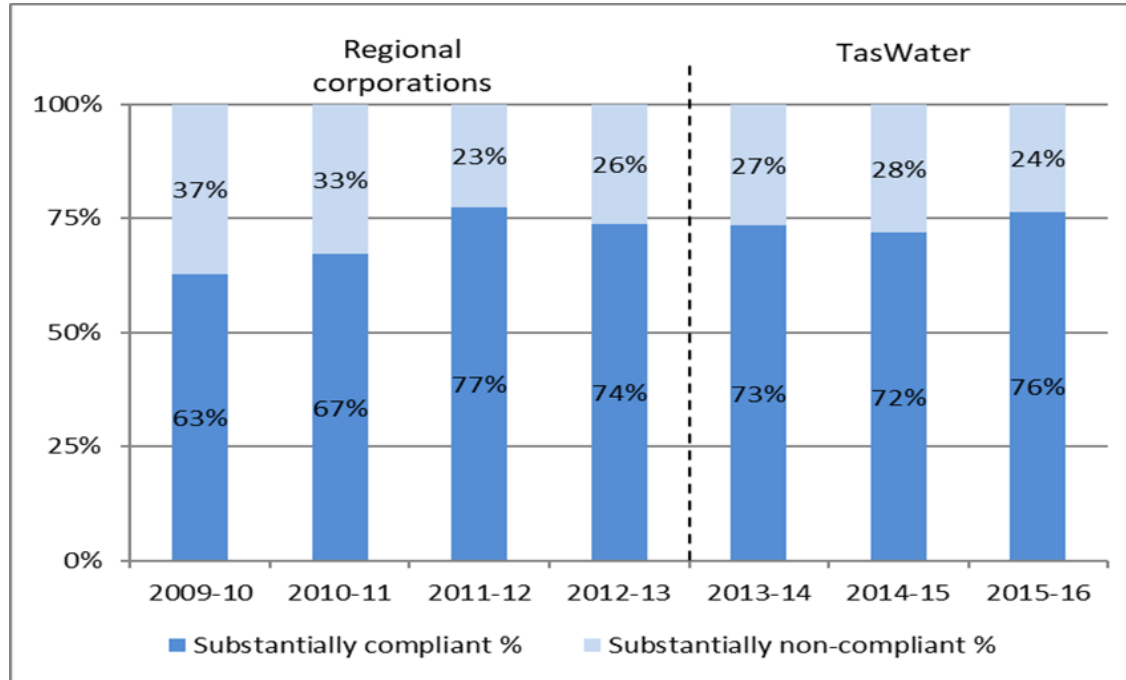
TasWater investigates and remedies the decline in microbiological sampling compliance and microbiological compliance

# Environment

The audit assessed whether compliance with environmental standards for wastewater improved since 2009

# Environment

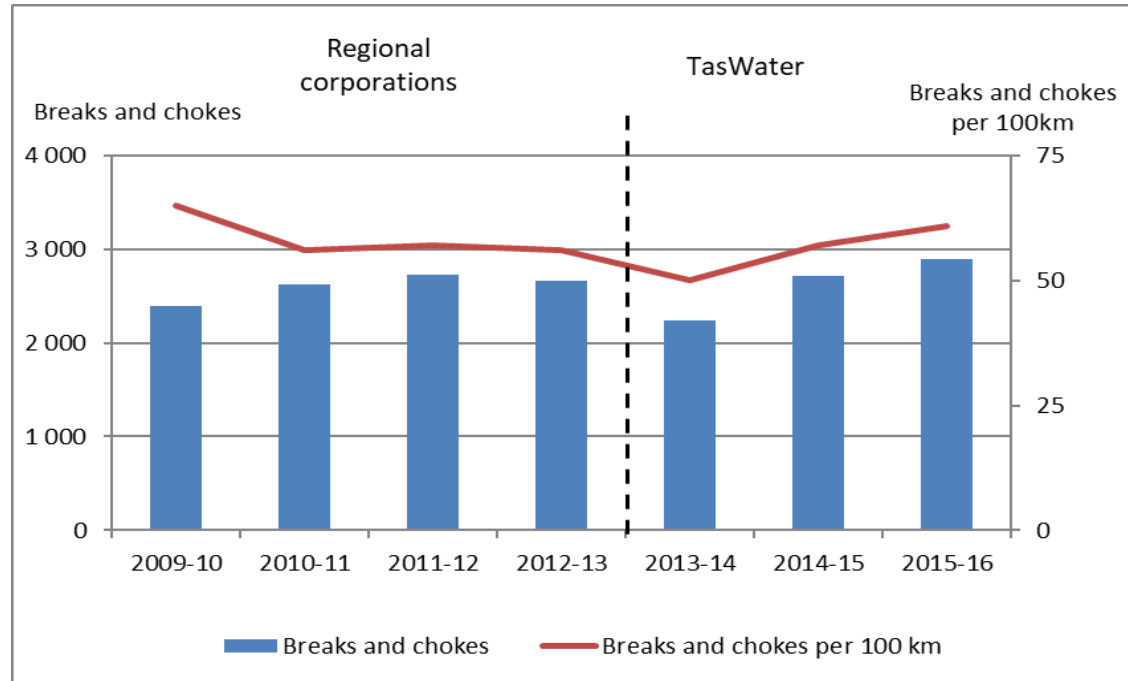
## Percentage of compliant Level 2 Sewerage Treatment Plants



Source: TER

# Environment

Number of sewer mains breaks and chokes and number per 100 km



Source: TER

# Environment

We found that:

- State-wide compliance with environmental standards for wastewater has not improved:
  - sewage treatment plants have not complied with licence conditions
  - underperforming sewerage infrastructure compared to national averages

# Environment

We found that (cont.):

- Significant long-term environmental benefits have not been achieved since 2009 and have not been achieved more quickly since 2013:
  - ongoing non-compliance of sewage treatment plants
  - no improvement in compliant treated sewage volume
  - high number of sewer mains breaks/chokes and breaks/chokes per 100 km and sewer overflows and overflows per 100 km



# Environment

## **Recommendation 2**

TasWater improves its efforts in wastewater management compliance to meet community and regulatory expectations

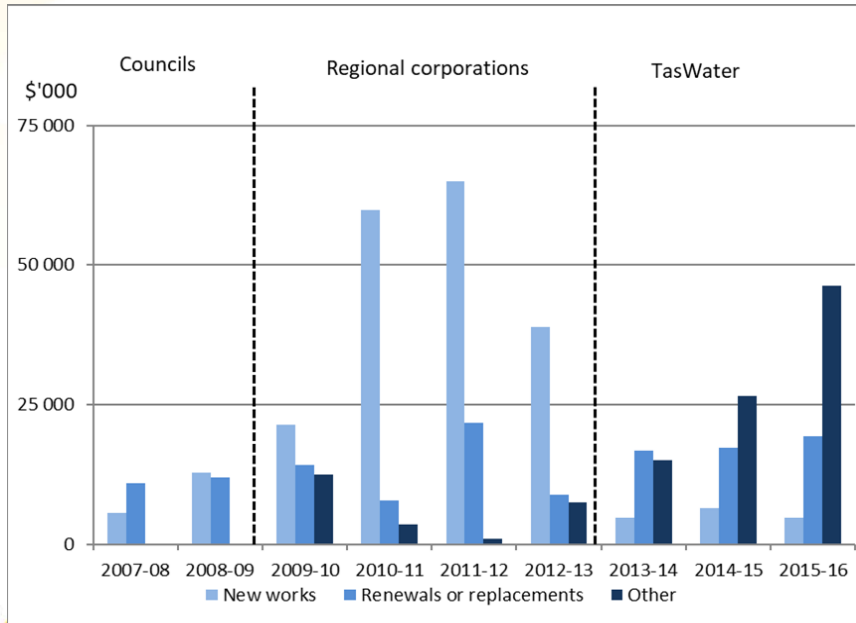
# Asset management

We assessed whether:

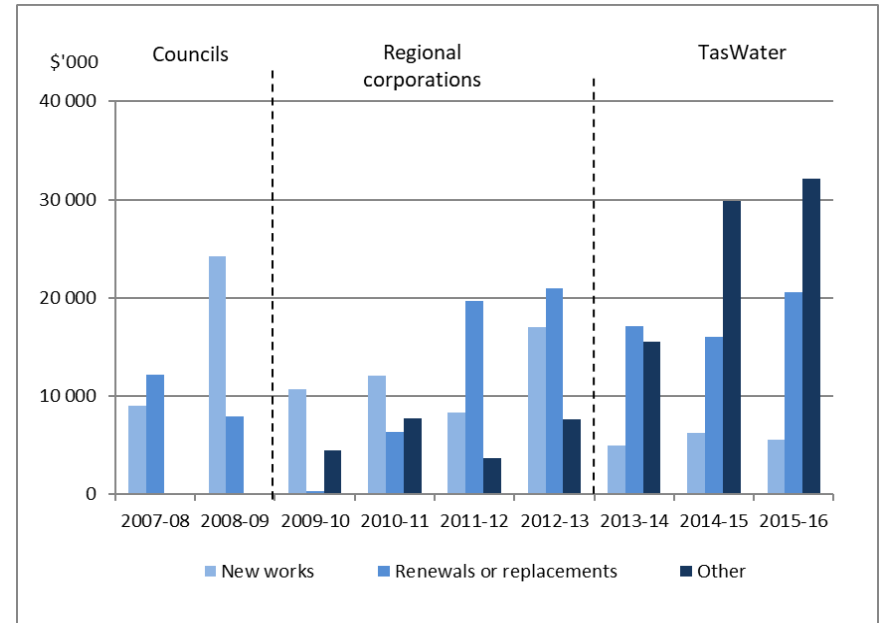
- Strategic asset management planning improved
- Old and failing water and sewerage infrastructure identified and renewed
- Water and sewerage infrastructure expanded or extended

# Asset management

Water infrastructure – capital expenditure by category



Sewerage infrastructure – capital expenditure by category



Source: TER

# Asset management

We found that:

- Improved strategic asset management planning has been achieved since 2009
- Implementation of state-wide infrastructure planning has commenced since 2013
- Identification of old and failing water and sewerage infrastructure has occurred since 2009

# Asset management

We found that (cont.):

- Renewal of old and failing water and sewerage infrastructure occurred for some assets
- Renewal over coming decades has been planned for since 2009 but has not proceeded commensurate with the age and condition of the state's infrastructure
- An improved infrastructure standard has occurred for some assets since 2009

# Asset management

We found that (cont.):

- Water and sewerage infrastructure has been expanded and extended since the commencement of the reforms
- A structured approach to asset rationalisation is not in place

# Asset management

## Recommendations 3 to 5

TasWater...

- ... completes its work on assessing condition of infrastructure assets in the short term
- ... undertakes greater investment and prioritisation of capital expenditure to address old and failing infrastructure
- ... finalises its rationalisation strategy to support rationalisation projects

# Financial benefits

We assessed whether:

- Pricing structures balanced revenue maximisation against equity within the regulatory environment
- Revenue flows increased to achieve self-sustaining investments and has an appropriate level of debt funding utilised
- More flexibility to deal with a capital expenditure program achieved
- Customers pay an appropriate amount for services
- Cost savings and reduced reporting and administrative effort achieved



# Financial benefits

We found that:

- Pricing structures since 1 July 2009 balanced revenue maximisation against equity in regulatory environment
- Revenue flows increased to support self-sustaining investments since 2009
- Payment of dividends, guarantee fees and tax equivalents made to councils as required by 2008 and 2012 Acts

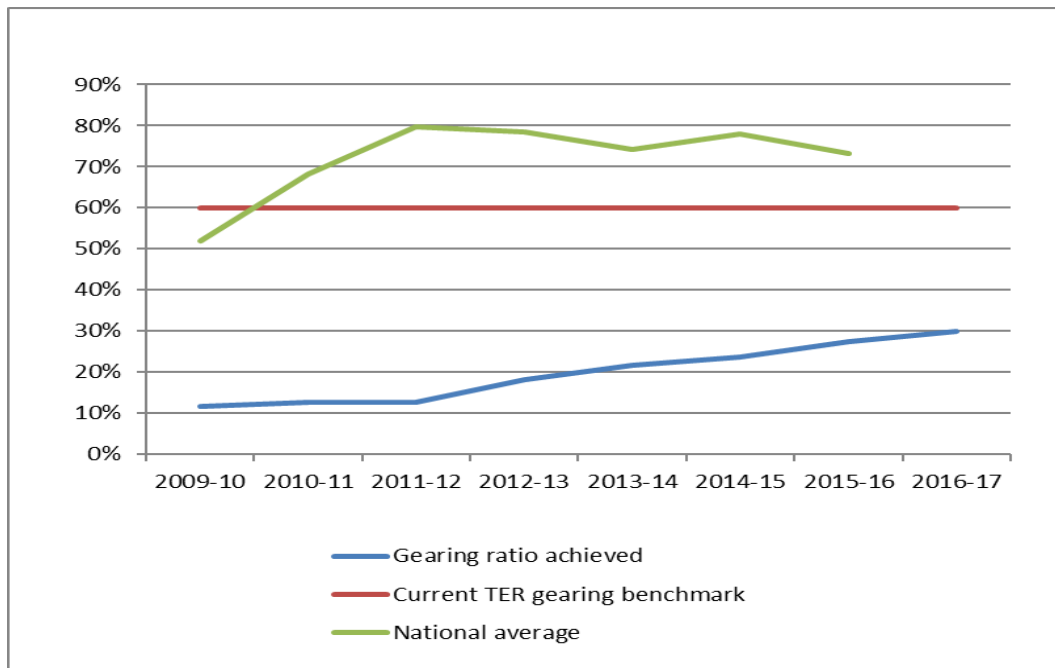
# Financial benefits

We found that (cont.):

- Improved capacity to service debt and meet debt repayment requirements since 2009
- Appropriate level of debt funding has not been utilised since 2009 as more capital expenditure could have been funded by debt to improve compliance with environmental standards for wastewater
- Better capacity to manage debt since 2013

# Financial benefits

## Gearing ratios 2009-10 to 2016-17



Source: TAO

# Financial benefits

We found that (cont.):

- Actual expenditure since 2009 is in line with the government's expected expenditure of \$1bn over 10 years.
- More flexibility to deal with capital expenditure program achieved since 2013
- Customers have not paid an appropriate amount for water and sewerage services since 2009 but have paid an appropriate amount since 2013

# Financial benefits

We found that (cont.):

- Tourism operators, local businesses and community received cost-effective services since 2009
- Financial return improved since 2009
- Savings of \$5m per annum after a period of time as a result of merger have not been fully achieved since 2013
- Further integration of administrative systems creating cost savings and reduced reporting partially occurred since 2013

# Financial benefits

## **Recommendation 6**

TasWater investigates the acceleration of infrastructure investment by utilising additional debt funding

# Customer service

We assessed whether:

- Minimum customer service standards established and achieved
- Service delivery and customer relations have improved across the state
- A more robust regulatory framework has been achieved





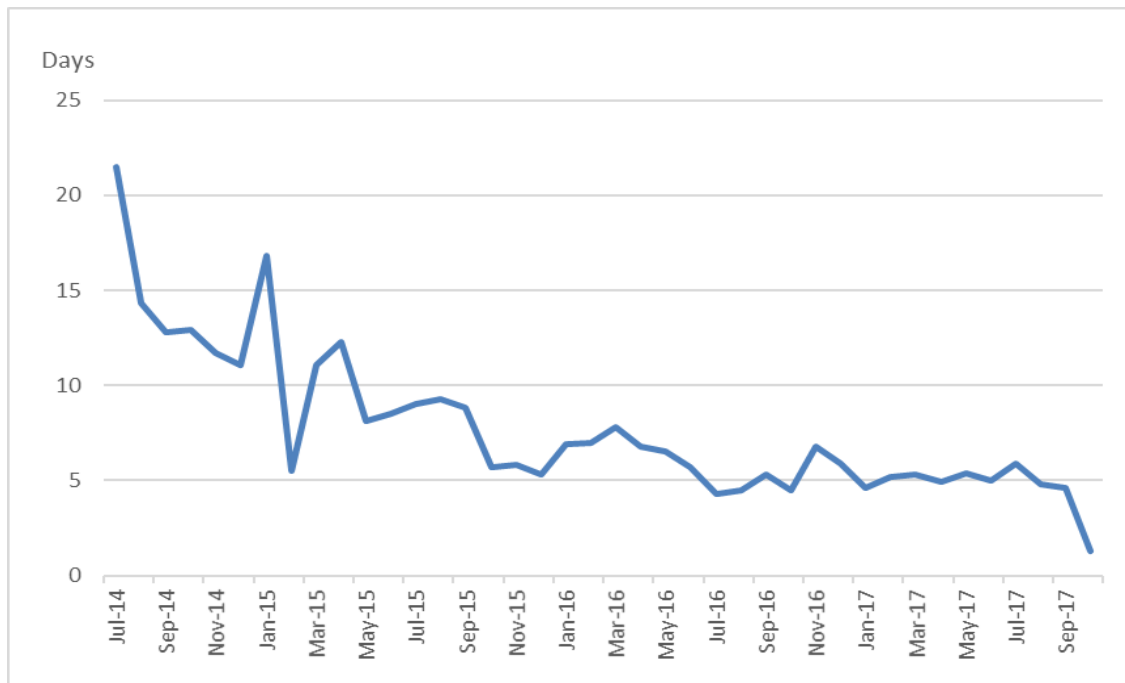
# Customer service

We found that:

- Minimum customer service standards established since 2009
- Not all minimum customer service standards achieved since 2009 despite concessions on transitional targets and performance

# Customer service

Average number of days from customer contact to resolution



Source: TasWater

# Customer service

We found that:

- Service delivery improved across the state since 2009 but not consistent since 2013
- Customer relations improved across the state since 2009 and consistent since 2013
- Customer service standards driven business decision-making since 2009

# Customer service

We found that:

- The regulatory framework in Tasmania since 2009 has:
  - been strengthened by the implementation of the 2008 Industry Act
  - been as robust as frameworks in other states
  - provided customers with a voice through a transparent regulatory framework
  - facilitated communication between technical and economic regulators

# Customer service

## Recommendations 7 to 9

TasWater ...

- ... works more diligently to achieve minimum customer service standards as required by the Code
- ... continue to develop measures to better monitor levels of customer satisfaction
- ... consistently and publicly reports service levels and customer satisfaction

# Comments received

## Treasurer:

- Emphasised the shortfalls in meeting the intended outcomes, particularly:
  - non-compliance of sewage treatment plants
  - water loss despite the water meter rollout
  - lack of utilising debt to speed up infrastructure reform
- Agreed all recommendations were appropriate

# Comments received

## TasWater:

- Agreed with the majority of findings
- Stated that more 2016-17 data would have shown more progress
- Stated that the population receiving bacteriologically non-compliant reticulated water has reduced from 4.0% in 2008-09 to 0.6% in 2016-17
- Is only able to increase debt up to the borrowing limit set annually by Tascorp

# Comments received

## Department of Health and Human Services:

- Concerned that findings could undermine public trust in safety of drinking water supply
- In 2008-09, 96% of population received compliant drinking water and this has risen to 99.4% in 2016-17

## Environment Protection Authority:

- Findings reasonable and acknowledges that rate of progress securing environmental outcomes is inadequate



Questions?