

# **Necessary Change or Unnecessary Confusion? –Water and Sewerage Reform in Tasmania**

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*Presentation to the Annual Local Government Grants Commission Conference –  
Hobart, 11 November 2009*

The pursuit of major reform, whether it be at the state or national level, is typically seen through one of two lenses – one lens is useful for filtering the noise and chatter from the policy imperative; this offers the opportunity to assess whether change is necessary in search of a broad overall benefit to the community; – the other lens tends to focus the mind on the threat of change, the possibility of being worse off and the mystery of the detail, all of which can lead to widespread community confusion. It is easy to argue that the resulting confusion is unnecessary if the reform is badly designed and poorly implemented.

It is rare these days that a government can undertake major reform without attracting broad ranging criticism, regardless of the lens through which one views the change. Some of this criticism will be very well informed, more will be partially informed and even more it often seems, will be decidedly uninformed. Recent changes to the way in which water and sewerage services are provided in Tasmania are no exception. The scrutiny and attention being reported seems to be decidedly negative overall, particularly now that the first real measurable indicator of the reform has reached the community generally – this being in the form of their first water and sewerage bill. Should we have been surprised? .....maybe ..... maybe not!

It is both frustrating and disappointing to see a lack of focus on the potential for collective benefit from reform, particularly when the narrow perception of individuals about whether they will be marginally better or worse off financially seems to be dominating public expression through media debate. However, right now we are seeing just that while in the middle of what should be debate about a policy issue of potential national significance.

Lost are the arguments about whether the recent changes will bring about a better community awareness of water (and waste water) usage through appropriate price signals; whether the quality of the services can be improved for Tasmanians generally without the need for good luck about where you live, or where your business is located; whether inevitable increases in the charges for these services will be lower in future than would otherwise have been the case without change; whether a different way of doing things will bring about greater transparency and accountability; and whether the past arrangements best served the future economic development aspirations and needs of the state.

To ask these questions is to test our thinking on whether we think that government – on our behalf – has exercised sound leadership and discretion in its policy choice for change. When governments embark on the path of reform we should expect a sound case for change to be made; a clear proposal to be put forward for scrutiny; a reasonable opportunity for comment, debate and suggestions for modification that are free of blatant self-interest, trickery and false messages; a decision that takes into account the broadest possible consideration of the anticipated benefits and costs to the community; clear acknowledgement for those who may be worse off – and if appropriate a commitment for compensation to the extent this may be reasonable; and finally, swift and decisive implementation. Together these steps should make for informed engagement with an outcome that even if not accepted by all, should at least be understood by many. And for their part, throughout this process we should expect individuals, interest groups, and in particular the media to be properly informed of the relevant facts and their consideration of the issues to be balanced and pragmatic – otherwise their contributions will detract from rather than add value to the quality of the debate.

This reform has proved a torturous and at times tedious process, but meaningful gain is rarely achieved through laziness, deliberate inaction or taking shortcuts.

Today I will take you through some important context that has highlighted the case for change. In doing so I will attempt to paint for you a broad picture of the effort and complexity involved in an undertaking of this nature, particularly in a context where the system to be changed has deep historical roots and involves the prospect of higher charges on the community.

Whether the change could be considered necessarily beneficial or unnecessarily confusing is probably not as clear cut as we may like to think, because it could be argued that there is something of each in the outcome.

Overall I think it can be said that the timing of the reform may have been flexible, but there is an air of inevitability about the actual need for change; and as we haven't heard a strong policy argument for delaying the changes, sooner is bound to be better than later. We should also acknowledge that the benefits arising from these changes will probably be difficult for the community more generally to gauge. In this regard lingering scepticism may be reinforced by the fact that the actual changes in water and sewerage operations, investment in new infrastructure, and the work required to improve environmental and public health outcomes, will seem remote to the day-to-day lives of most and difficult for them to observe in terms of measurable change with which they would be familiar. However, when Tasmanians look back with the benefit of hindsight, I am sure there will be collective recognition that the decision to reform was a good one and the process was efficient and inclusive.

To begin the task of dissecting and reviewing this experience, let me set out why the need to develop more functional and robust markets for water is an issue of national policy significance. At the national level, we have focused a lot over the past decade on the question of whether to further progress energy and telecommunication market reforms. I mention these services because they provide a good example for context, sharing some important similarities with the provision of water and sewerage services.

The telecommunications and energy markets present a range of regulatory, social policy and market design challenges for governments – many of which are pretty much the same in nature across the two service sectors. They both play an incredibly important role in our day-to-day lives, although the extent to which we take the availability of them for granted is usually only highlighted when the service is disrupted for some reason!

But issues about regional availability, the quality of the services on offer and the prices we pay for them can be strong drivers of public angst and opinion. Therefore, policy decisions about them need to bring together the consideration of strongly competing aims. I say strongly competing aims because, for example, getting even

basic essential energy and telecommunications services out beyond the fringes of the large urban clusters requires considerable investment in infrastructure. Because of the very large capital costs involved investment in major utilities infrastructure will most often fail to ‘pay its way’ if treated in isolation of overall network development, thereby creating the potential for many rural communities to be left underserved. This also means that utility businesses require large balance sheets to leverage the borrowing and to weather the long lead times needed for a return on their infrastructure investment. This point has particular relevance to the way in which councils were constrained in the way they could provide water and sewerage services here in the past.

In the case of the product itself it is widely accepted that the costs of exploration for and extraction of gas and oil, or the construction and operation of a power station are risky and expensive exercises. The case for telecommunications services is probably less well understood, but these services take years (and in some cases decades) to invent and refine and considerable expenditure is required along the way for research and development. However, in both cases customers seem to have a grudging recognition of this and tend to accept as OK that it is reflected in the charges they pay for the delivered service. In the case of water on the other hand, there is a general perception that it is available for free and is ever renewable – and this creates some policy and political challenges of its own.

Less clear to the community are the costs of actually delivering these services to their door. In the case of electricity and gas, expensive transmission networks are required to criss-cross the country, each of these feeding into much longer local distribution networks. But the costs of using these networks has much more to do with the costs of building them rather than the frequency with which they are used, or the amount of product being pumped through them. In principle at least, telecommunications offers the same story.

An annoying hurdle to charging for the construction of these networks is a direct result of customer perception. This perception is reflected by those in the community that are quite happy on the one hand for such investment to increase the value of their property, but are not happy on the one other hand to pay for the option to connect to the system. This behaviour is what economists refer to as the “free rider problem”

and it can create a lot of local community resistance to network development and upgrades, and broader pricing structures.

On top of all of this, there are the costs of providing customer services, the least well received but probably the most commercially important is the billing function – which is expected to be able to tell us how much we have used, when we used it, how the total bill is made up according to different rates or charges at different times of the day, how usage this month compares to last month, how this compares to the same month last year, and so on and so forth.

None of this capability comes cheaply and because the main costs of utility services are to a large extent independent of the number of users of the system, the charge per customer can be far less when there are significantly more customers over which to spread the total cost of providing the service. Therefore, the ability to achieve economies-of-scale is an important part of keeping costs down.

What is also important to bear in mind is that the ability to recover costs through charges has an enormous impact on the incentive to invest in infrastructure upgrades, extending services into new geographic areas, and improving the quality and reliability of the service. In other words, whether we as users like it or not, at some level there is always going to be a link between what we are prepared to pay and what we expect to receive.

For a number of reasons Governments have historically been involved in providing utility services (most often through ownership of the business). One important reason for this has been that the infrastructure required to get the service to customers is expensive. Furthermore, from the point of view of the community as a whole, there are strong arguments as to why we do not want to see this infrastructure needlessly duplicated. At the same time, we have an aversion to the private sector having a free reign over owning and charging for the use of essential monopoly infrastructure and this is where the Independent Regulator comes into the picture. In response to this we have created Regulators and given them the job of limiting to ‘fair and reasonable’ the levels of prices such providers can charge.

However, governments too can fall short of perfection and they have a chequered history when it comes to getting it right in the business of utility services. Common

criticism of the role of direct government involvement is that it tends to prescribe, or at the very least encourage, under or over investment, governments are generally much poorer at reading market signals and responding in commercially appropriate ways, and the thinking of government when it comes to commercially based activities is quite often clouded by social policy objectives; which in their own right can be important considerations, but are usually best solved if dealt with separately and transparently.

With several decades having been spent on regulatory policy surrounding the markets for energy and telecommunications we can confidently say that: (1) our thinking on these issues has now become quite sophisticated; (2) we have developed relatively well functioning markets in both sectors (even if there is still room for further improvement); and (3) there is widespread acceptance that competitive markets with regulated private sector involvement are well suited to governing the fair and efficient delivery of these services. This is valuable learning and experience to apply to other essential utility services.

So with this backdrop in mind, let me now turn to the issue of water and sewerage reform in particular.

Nationally, between 80-85% of water is used in rural settings, which means that only a very small proportion of our national water resource is used directly by the greatest number of people. I say directly because water is obviously used as an input to agricultural production, the output of which finishes up either in our homes, or in export markets generating income for the country – both of course which we collectively benefit from.

Each of these settings has problems that are either emerging, or which are now clear and present. However, for each setting the problems would seem to be quite different in origin even though the impact of them looks in many respects to be similar.

In the case of rural water use the problem would seem to be that the price of the resource has significantly understated its scarcity (and in many cases the environmental impacts of its use through irrigation), thus leading to overinvestment in related farm production (including quite likely in the wrong crops being grown) and severely restricted access to it in some regions (usually at the cost of what would

seem to be underpriced and easy access in neighbouring regions which share the same source of water).

In the case of urban water use the problem seems not so much to be one of pricing the water itself, but more one of the pricing signals required to invest in new storages or sources of water. In this regard, population growth could quite simply be said to be outstripping the capacity of a region to supply enough potable water. The policy response is to invest not just in additional storages (which are of course constrained by regional rainfall patterns), but also in new 'sources' of water –including wastewater recycling and desalination plants. Both these types of schemes are expensive to build and operate. Therefore, investment in them is going to require marked increases in user charges and in turn marked changes in community attitudes are going to be required to support these changes.

The plight of the Murray Darling River has grabbed widespread national attention (well at least for eastern and south-eastern Australia) and we probably have it to thank for raising the issue of water management in relation to its scarcity and environmental impacts as part of the national policy debate.

Population projections on the other hand highlight the need for planning for the future of service delivery in our urban centres and this issue is also now getting national policy exposure. But, while the challenges could at this point look to be the greatest for our biggest cities, these issues will no doubt take hold of the policy debate concerning the future development of our other large towns and regional cities as well.

Given the pressure for change, the question for policy makers becomes one of when we should act, and how quickly we think the community can adapt to the changes that will be required to see our core services continuing without major disruption. This is particularly relevant to Tasmania, because some have argued that the past arrangements were fine and the need for change was not now - particularly because we don't currently face an urban water crisis.

But having seen how things are unfolding elsewhere, the question is really one of whether Tasmania is actually that different, or that far out from experiencing similar pressures, that we could sit back and do nothing for some time still to come. Well, the

answer to that depends on to which region you look within the state, and to what standards we should be aspiring to best support our specific economic development opportunities.

While it is certainly true that in the next 4-5 years every capital city except Hobart and Darwin will rely on water from desalination (with Perth forecast to be relying by that time on about 40% of its water from desalination), this is not to say the issues specifically for Hobart are reflective of how water management, quality and the pricing of its delivery are relevant to the rest of the state. In fact, a strong case could be made for change here simply because there are bound to be market reforms in other jurisdictions. This is largely so because in the absence of proper price signals and adequate returns to underpin investment in water and wastewater infrastructure, a poor perception of Tasmania as a place to invest could be the collateral damage arising from a lack of essential support services.

In framing its consideration of this and related issues, the Government spent considerable time and effort back in early 2006 analysing the key issues underlying the provision of water services in Tasmania. What was found is that:

- average returns on the assets in the sector were at about 3%, which was not sufficient to encourage highly quality maintenance, the refurbishment of existing networks, or the development of new infrastructure;
- the level of investment in the sector that needed to be achieved over the coming decade to bring services to a high quality standard generally across the state was in the order of \$1 billion;
- asset management practices were of a generally low standard with no accurate inventory or sufficiently detailed asset management plans in many cases;
- environmental outcomes were at risk because a large proportion of treatment plants did not comply with environmental standards;
- many water systems (some of which were in key tourist destinations) are on permanent boil water alert;

- the regulatory arrangements were very light-handed - particularly given the substantial assets involved across the state – with opaque pricing regimes not being well understood at all throughout the community; and
- decisions about whether existing services should be upgraded and to where they should be extended were not being made to achieve an appropriate standard and reach of service.

None of these outcomes are necessarily the result of neglect by either the state or local governments, they were simply the result of static arrangements in gradually changing times – this has to a degree made it more difficult to acknowledge, but the issue has in fact been creeping up on us slowly for quite some time.

However, the national debate about water market reform has served as a useful trigger to review the Tasmanian arrangements. The key question arising from this was whether the move towards a gradual transition was either warranted or timely. Obviously the outcome of this was a decision based heavily on a judgement that gave greater weight to the inevitability of the need for change, rather than the easy choice of avoiding or delaying reform.

The decision to progress change was not a straightforward one for government, because at the heart of its decision was an action that would result in taking away from councils in Tasmania tasks and responsibilities that make up almost half their reason to exist. Also at the heart of its decision was recognition that the new investment required to bring the industry up to a best practice standard, would necessarily involve higher user charges over time.

In view of these fundamental policy (and political) considerations, the Government established a Ministerial Taskforce with a clear mandate to progress the following specific objectives:

- securing the long-term sustainability of Tasmania's water resources;
- improving the quality of water and sewerage services to Tasmanian communities;
- improving current water and sewerage infrastructure and planning;

- ensuring that access to water and sewerage services is not a constraint to economic development; and
- ensuring greater efficiency and improved pricing signals through structural reform.

Prior to any detailed consultation, the Government had Treasury undertake some broad ranging research and analysis to look at other models– highlighting their strengths and weaknesses, so as to gauge which options might worth be investigating more carefully as the basis for consultation with local government and the community on a Tasmanian reform package. Then the Treasurer through a public speech in mid-2006 marked the beginning of the formal consultation process, in which he acknowledged the legitimate interests of councils in contributing to the reform outcome, while at the same time putting a case for reform – that, not surprisingly, was very similar in scope to the issues I have just outlined to you.

Although at this stage there was no consensus on the look and feel of the most appropriate solution, the landmark point in the debate was a recognition that the status quo was not acceptable because: there were 29 separate authorities delivering water and sewerage services in almost as many different ways; councils had widely varying capacities to meet community expectations and environmental standards; there was very little if any coordination in planning of infrastructure development; there were almost as many different pricing regimes as there were councils; and the regulatory framework within which they had to operate was very outdated. This seemed to trigger widespread acknowledgement that something had to change – but a change to what remained the unanswered question.

As discussions between the state and local government intensified the ‘must haves’ for both emerged, with these shaping the final outcome. For the state the issues were: more appropriate market based pricing (with a state-wide implementation of two-part user-pays pricing), the achievement of economies-of-scale in purchasing, administration and service delivery; and a strong balance sheet that could be used to leverage the capital requirements of infrastructure development on a state-wide basis. In short, the state preferred solution looked like a single state-wide business.

For local government the main issues were: continued ownership and connection with the business of water and sewerage services; access to financial returns (particularly for those councils that had been running their water and sewerage business profitably); and certainty and opportunity for staff that would continue to work in the sector.

Local government agreed to form a representative group of general managers with whom state government representatives could consult. This was seen as the most efficient means to progress consultation. Following further discussion and negotiation, the compromise was a governance model in which every council in each of three regions in the state would assume full shared ownership of a new corporation. Each corporation would take over responsibility for all water and sewerage services in that region, with each of the three corporations in turn owning and being supported by a fourth new common services corporation. The development of a new regulatory framework would also make clear the accountability of the new businesses, establish pricing oversight together with setting operational parameters, and aim to meet contemporary expectations with regard to environmental, water management, and public health standards.

What could best be described as a loose and unstable consensus held together long enough for the very rapid development and implementation of two primary pieces of legislation: one to give effect to the structural change elements of the reform (which included creating new corporations and transferring the relevant assets, employees and liabilities from councils to the new corporations); and another to facilitate all of the regulatory aspects of the reform.

Now to describe in detail the process of bringing local government generally to the same point of acceptance and the many challenges associated with this task, would require me to detain you for far longer than I have been given time today. It is one thing to build a case for sensible change and yet another to sell it to the masses. This is particularly the case with the parochial self-interest which seems to pervade the politics of local government. However, I can say that engaging with the councils through the general managers and the senior representatives of the Local Government Association turned out to be as good and effective a process that we could have expected.

On the whole they brought to the table an informed perspective on many practical and financial issues, were able to demonstrate leadership in acknowledging the need for change and getting on with the task of best implementing the changes once the way forward had been determined, and were highly effective at keeping their elected members and employees across new developments as they arose. In this regard they played a significant role in making the reform implementation the success it has been. Moreover, I think it is fair to say that without the leadership shown by the north, the process of getting councils to the point of acceptance would have stumbled and fallen – possibly with the consequence of huge and possibly fatal delays!

The model of engaging with local government through a general managers group set a useful mould for managing the implementation task and since mid 2008 substantial progress in terms of both structural and regulatory reform has been the result.

On the structural side, the 3 regional corporations, as well as the common services corporation, have been established and became fully operational just over 4 months ago. Streamlined governance between the corporations and the owners is supported by the councils in each region having appointed three owner representatives for their region. The first task of the owner representatives was to collectively appoint a common chair and suitable Board candidates. All appointments were made on the basis of candidates nominated for selection by an independent Board Selection Committee established under the new legislation. Of course I making this sound simple by describing it in such a sweeping side comment, but I can say from first hand experience that an incredible amount of work, angst and tension went into setting the context for these events to take place in such a short space of time.

How the councils were to share ownership of the regional corporations, and how the financial returns from them are to be divided were also the subject of more than just passing interest by local government. At the time the time the new arrangements started, councils were at very different stages of developing their internal water and sewerage businesses and the pricing of services to earn a return on these businesses. Furthermore, across councils there was a wide range of asset types, vintages and state of repair, which also posed an appreciable challenge in bringing all financially related matters to a common denominator. Added to this, many industrial relations issues

also needed to be considered with most employees across the sector to transfer from many different employers to what was effectively to be a single common employer.

With this onerous and complex task in mind, the state government, councils and representatives of the newly formed corporations agreed a 'joint' Implementation Plan. Under this plan a very detailed state-wide physical and financial due diligence was undertaken, and this exercise had significant input from every council in the state. From this exercise, the shares of ownership were determined, as was the legal basis for the transfer notice required to convey ownership of the internal businesses from councils to the new corporations. This exercise resulted in the single transfer of approximately \$2 billion of assets and associated liabilities as well as 615 employees.

On the regulatory side, several additional and/or amending pieces of legislation and regulations have been developed in order to progress reform implementation.

These regulatory developments are overseen by a forum that brings together the new corporations, the Economic Regulator and the Directors of Public Health and Environment. This group is overseeing the development of a regulatory compliance plan for the new licensing regime. This will ensure progressive improvements in regulatory compliance by the corporations over the next few years with respect to their existing services, and will provide clear information and much greater certainty to all sector participants. It represents a significant first step towards addressing the high levels of historical non-compliance that the corporations inherited from councils, a core promise to the community when the decision to take this path was originally agreed.

While I have said little if anything to now about the detail of the financial aspects of the reform let me assure you this has not been the lowest profile and least controversial part.

There are essentially two parts to this aspect of the reform. One relates to fulfilling the commitment to leave the new corporations in the ownership of local government, but as a consequence determining how the financial returns should be distributed amongst the owners. The other relates to issues of pricing for services – including how these should be governed and at what levels they should be set.

Let me take the second part first.

The changes that are to be gradually brought about with respect to the pricing of services, while controversial, will probably represent the most important underlying long-term developments arising from the reform process. However, although controversial they offer some potentially significant benefits and these are just beginning to percolate into some of the public assessment of the reform.

One clear benefit to users will be reflected in more targeted charging, so that the costs of establishing and maintaining the network and connections will be shared in a fair and even-handed manner across the business and residential communities. Together with direct volumetric usage charges, all users will face clear and transparent costs for the water they actually use and the services they receive. Another benefit is that users should for the first time have a better opportunity to understand how they are being charged for water and sewerage services. If the outcry over recent changes that involved a simple switch from a combined council rates notice to a separate general rate notice and a separate bill for water and sewerage charges is anything to go by – it couldn't be clearer that the past arrangements were only acceptable because they had been in place for a very long time – not because they were well understood.

Although there are areas in the state (mostly across the north and the northwest) that effectively moved to two-part water pricing and metering some years ago, it is clear we have some way to go before we are in a position to argue that there is a common basis for water charges across the whole community. This will not happen overnight, nor will it happen without some cost, but the anticipated roll-out of water metering over time should help to quell some of the angst being felt by those whose charges are at present based purely on the assessed annual earning capacity of their property.

But of course two-part pricing does not in itself offer us much of a guide to pricing levels overall, nor does it answer questions as to whether volume and per connection charges should be uniform across the state, or whether they should be based on zones, and if so how many zones. At present we effectively have zone-based pricing, but this is based on municipal boundaries from the old arrangements, which will no doubt look quite arbitrary when the next phase of developing the pricing regime is considered.

In the past councils need only have looked at and managed the provision of water and sewerage services on a localised basis. Therefore, the level of pricing relative to the quality and reach of the services on offer, together with the ability of the immediate community to afford new investment, has created some perverse outcomes. A clear example is the lack of infrastructure and poor water quality on the east coast and southern beaches, which are major tourist destinations for the state as a whole. This raises the question as to why these councils should make all the hard decisions on raising revenue and investing in expensive infrastructure, when many of the benefits of this through generating greater tourism to the area, and indeed to the state as a whole, will accrue to businesses in the likes of Hobart and Launceston? A simple example, but it does demonstrate the important underlying consideration as to why these services should be planned, funded and delivered on a regional basis at the very least.

How the final pricing regulations will look in detail is still to be determined, but considerable background work has gone into looking at regimes that will best suit the circumstances of Tasmania, while at the same time keeping in touch with how reforms will likely develop at the national level. These are complex issues, but we are not alone in searching for the most appropriate models to address the policy challenges of creating a strong link between user charges and the signals to invest in new infrastructure. We should and are looking to leverage the experience elsewhere, both to avoid wasting effort and the risk of being out-of-step with the rest of the nation.

So how will prices actually be set? Well, in the long-term the legislation provides for all prices to reflect full-cost recovery for the sector, where full-cost recovery will include an appropriate rate of return on assets. It also envisages two-part pricing on a state-wide basis, but doesn't anticipate much by way of detail beyond that. This has given the Government some time and flexibility in determining the finer points of an appropriate pricing regime, while at the same time making clear up-front what the guiding principles are to be for the new the regime.

Of course moving from the current to the long-term arrangements will require a period of transition because there will inevitably be two types of price adjustments – one that reflects gradual price increases as revenue is raised to meet full-cost recovery

and the need for new investment in infrastructure; with another reflecting a move away from charges based solely on property earning capacity, to one which includes water usage.

Although I have not mentioned it explicitly, each corporation will be a monopoly for its region and so an Economic Regulator will be charged with the task of determining revenue caps and price ceilings. However, in the first few years the Treasurer is determining price increases and these are set out in an Interim Price Order. This Order takes into account the Regulator's advice as to where prices should be under full-cost recovery and allows the Treasurer to set a price path that will transition gradually to long-term levels. For this the first year, prices have been set at a minimum of the same as and a maximum of 10% above the charges by councils for last year.

What this means for example is that for someone who received a combined rates notice of \$1,500 from their council for last year – where \$500 reflected the water and sewerage rate – their water and sewerage charge from the new corporation for this year could be \$550 at most, with households in a few municipalities receiving charges of no more than they did last year.

This seems simple enough in concept, but I can assure you there has been a lot of confusion as to how the new bills have been determined and what the new charges represent; particularly given that the \$1,000 council component has gone up independently of the reform in many municipalities this year.

Now, turning briefly to an issue of far less consequence for the reform once implemented, but one of significant interest to councils in agreeing the new model, is the issue of how to divide the financial spoils of ownership. I don't want to spend much time on this, but will give a very brief overview simply to help complete the overall picture.

The financial due diligence I referred to earlier provided an assessment across all councils of the profitability of their former internal water and sewerage business activities. When the Government determined to create the new businesses, it agreed at the same time to recognise that certain councils had managed these internal

business units in such a way as to generate profits from them. This profit was used to either re-invest in the businesses, or subsidise other council activities.

Whether or not one agrees with councils having raised water and sewerage charges to fund other activities is not a matter for debate here. However, it was nonetheless a source of revenue on which they had come to rely and so the Government agreed compensation for this future loss in revenue. Therefore, councils in this position have been attributed an average profit for the 3 years leading up to the reform as a sort of 'first-call' on dividends from the new corporations. They therefore are in-line to receive a type of priority dividend for the first 5 years and once these dividend requirements have been met each year, the remaining returns are to be divided amongst owner councils in a manner proportional to their equity share in the regional corporation. Equity shares have been determined on the basis of the value of the assets transferred from each council to the new corporation.

A long and winding story I know – but any meaningful major reform cannot be adequately explained in a short sound bite.

What I would like to do is finish by saying that I think the changes are necessary. The past arrangements were not serving Tasmanians well because we know that the sector lacked uniformity in pricing, there had been chronic underinvestment in infrastructure, many existing local schemes did not meet environmental and public health standards, there is a poor relationship between the demand for and use of services and the state of the assets, and we don't have adequate price signals that have been based on our contemporary understanding of how markets for utilities can best operate.

On the other hand there remains confusion about the new arrangements, where some of this concerns the source and pricing of the old charges as new bills, while other sources of confusion stem from a misperception that ratepayers in some municipalities will somehow now be subsidising the services for other municipalities. Ratepayers of one localised community won't actually be subsidising services in other communities, but what we will see is planning and infrastructure development that takes into account benefits at the regional or state level, as opposed to a focus on

municipal needs and revenue capabilities alone. The concept of municipal boundaries, therefore, is no longer relevant when it comes to water and sewerage services.

Together with pricing arrangements that treat everybody in a fair and even handed way and give recognition to charges based more on usage, the new arrangements will position Tasmania to best meet its development needs and aspirations, while at the same time ensuring a more responsive system to community needs. The challenge is still to communicate this to the public in a way that will foster awareness of – and hopefully support for - what has been a very forward looking and major reform undertaking.

In many regards the significance of the reform is not so much about what has changed now, but more the decision to begin the transition away from outdated arrangements to a structural price and regulatory setting that will serve Tasmania's best interest for many decades to come.