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"In Support of Progress" Newsletter

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Water Charges

The subject of Headworks Charges is gaining a lot of attention at the moment. The Liberals have said they will "compensate TasWater to a maximum of $5 million per year for 2 years". The government has now responded by seeking a compact with local government to share the cost 50/50 up to $1.5 million a year, presumably for one year.
So what is this debate all about?

Headworks charges are a relatively new impost placed on developers (of land and/or commercial buildings) whereby the developer pays for the capital costs for water and sewerage associated with that development. Prior to 2009, these costs were absorbed in the general rate component, but the advent of the new Water Corporations brought about a change in the billing arrangements.

The idea is that consumers now (only) pay for the water we use (plus a rental charge), rather than the payment being based on the value of the property (AAV). At first blush the scheme sounds fair.

But is it? Well, in principle, probably so, but in reality, no. And "no" for a number of reasons.

First and foremost, developers are being asked to pay for an item of infrastructure that is not theirs. They then have to pay a rent on that infrastructure.

Second, the change in the system of charging does not mean everybody moves over to it. A development that occurred prior to 2009 is still required to pay at a dollar rate equivalent to the old AAV system, plus an extra amount for water use, whereas a new development comes under the new system. Why is this unfair? Well…

Imagine for example a multi-storey carpark. Very utilitarian. Water use negligible. If it was built prior to 2009, its owner has paid annual water rates based on its assessed annual value, or AAV. A considerable sum, considering it uses hardly any water at all. The owner will still have to pay the same dollar value, irrespective of water use.

If on the other hand, it was built last year, the owner will need to pay a one-off headworks charge (which will be a small amount because the requirement for water is low) and an ongoing amount based on water usage. Again a small amount. The difference in payment in favour of the new development is significant, and could be over $100,000 per year.

This example of discriminatory pricing holds true for most commercial buildings, and best exemplifies the fact that there is an inequity in the way water rates are being charged. In fact, and it may be an unintended consequence of the new billing arrangement, the owner of new commercial premises has been provided

with a distinct competitive advantage over the owner of the older premises, purely because of the discriminatory charge being levied.

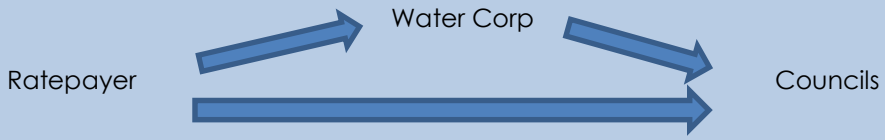
Third, a further consequence of this differential pricing makes adversely affects the capital value of the building and thus the owner's credit rating, capacity to borrow, etc.

Fourth, developers are complaining that the amount being asked up front for the headworks charge is sufficient to inhibit developments.

And finally, there would appear to be a lack of transparency in the setting of the headworks charges. They are "negotiable".

The political fix has been to suggest the government pays for or subsidises these costs, a least for a period, to stimulate investment and development.

Now TasWater (the Water Corp) is a vehicle of LOCAL government, and pays a dividend (around $29 million a year) to its owner. The following diagram shows the relationship between the payer, TasWater and local government. Arrows show the flow of dollars.



The ratepayer pays rates direct to Council, and water charges direct to TasWater, which then pays a dividend to Council. If the dividend is reduced, there is nothing stopping Councils from upping their rates, other than by a direct intervention by the State Government.

TasWater has said a review of their charging arrangements is not due until 2015, and as such it is disinclined to do anything in the meantime. So much for any sense of urgency.

If a special payment (eg for headworks charges to help developers) is made to TasWater, then in reality it is simply subsidising the dividend being paid to Councils. In other words, a payment by government to TasWater to cover headworks charges is subsidising the dividend, or alternatively, it is subsidising rate revenues.

Local government is in the box seat. It can amend its rate base as it sees fit (eg check your own rates over the last 4 years to see how the base for your rates has changed), and has full flexibility in determining its rate base for individual projects. It will benefit from any new development from the rates paid, and any increased usage of water will assist the payment of the dividend, and now the dividend itself will be underwritten.

The solution should not be the taxpayer indirectly subsidising local government, **without** due recompense. The solution in fact lies with local government, and solely with local government, the owner of TasWater.

It is obvious that there have been (or rather should have been) savings made from the amalgamation of the 4 water corporations into one. It is obvious that TasWater should be run as a business, and thus be conscious of its cost base. And it is obvious that there are many savings to be made in the operation of local government generally.

So a more preferable approach would be to demand of local government both the removal of headworks charges and a more equitable charging regime, to be funded from a more efficient operation, before demanding a resolution from State Government.

If the State is to contribute, then it should ONLY be done on the basis of proven efficiencies being delivered from within local government. Controlling rate rises is a good start. Developers are also restricted as much by other local government policies, planning constraints and development application arrangements as they are from headworks charges, and these must also be brought into the mix.

If it is to be a compact, then let it be a fair dinkum one.

Minority Government

I have been asked to explain further why I say the present state government should not be called a minority government.

In a parliamentary democracy, government must command the confidence of the parliament. Obviously, a party that has a majority of the seats in parliament will by virtue of that majority, command that confidence. However, what happens if no party can command a majority of seats?

The Gillard government was a minority government. The Cabinet – the vehicle of government – did not command a majority in the Parliament, and had to deal individually with a number of Independents, who remained Independent.

Contrast that with the Coalition, where there is a formal arrangement between two parties (Liberals and Nationals), placing members of both parties in Cabinet, and thus allowing the government to command a majority on the floor of the House. Ie a majority government.

So it is in Tasmania, where a formal power-sharing agreement places members of the two parties (Labor and the Greens) into Cabinet and thereby enabling the government to command a majority. As I have stated previously, my issue is with the ***nature*** of the Agreement, which enables the government to express contrasting views. Greens Ministers saying the opposite of Labor Ministers. This is what cannot and should not be tolerated.