

**TasWater**

# Corporate Plan

Financial years 2015 to 2017





## Executive Summary

We are pleased to submit our Corporate Plan to owner councils for the three year financial period 2015 – 2017.

This Corporate Plan builds on the inaugural Corporate Plan provided in 2013 and complies with the requirements specified within the Shareholders' Letter of Expectations (SLE).

Our first year of operation has been one of consolidation and foundation building whilst simultaneously ensuring delivery of the initial anticipated benefits of one corporation.

Our second corporate plan builds on the progress achieved in the first year of Taswater operations, leveraging off a clear vision and strategy for the future, a new state-wide operating model and efficiency gains.

This Corporate Plan looks beyond the current planning period as we seek to position the corporation on a path that is reflective of our vision to be *"a trusted and respected provider of essential services that is making a positive difference to Tasmania."*

This vision recognises the pivotal role that the corporation can play in the future of Tasmania over the next decade and beyond by contributing positively to the state's economic development in a responsible and sustainable manner.

The delivery of this vision also requires that we take an informed and pragmatic view of our current situation.

In addition to the need to deliver infrastructure that complies with contemporary health and environmental compliance requirements, we need to address the fact that our assets are ageing and will require significant investment over the next decade.

We have commenced work on plans to rationalise wastewater infrastructure in the Derwent and Tamar, however it is unlikely that we will be in a position to fully implement those plans on a timely basis without funding from external sources.

There is significant community concern in regards to the affordability of water & sewerage services, particularly for vulnerable customer groups. This has been a key consideration as we developed the Corporate Plan.

Many of our key stakeholder groups see the current pricing transition arrangements as taking too long and inherently unfair.

It is within this context that we have set out the following key priorities for this corporate plan:

- Improving our safety performance and developing a zero harm culture;
- Building a comprehensive 10 year asset management plan that provides the foundation for our ongoing infrastructure investment program;
- Transition of customer charges to target tariffs by the end of FY2020 with the majority at target by the end of FY2018;
- Targeted improvements in water quality and wastewater compliance;
- Improvements in trade waste influent quality through management of consents and contracts including implementation of a consistent pricing and compliance regime;
- Further improvements in customer service outcomes and experiences;
- Investments in increasing employee capability and underpinning business systems;

- Delivering target distributions to owner councils of \$30 million in 2014-15, \$31.2 million in 2015-16 and \$32.4 million in 2016-17.



**Mike Brewster**

Chief Executive Officer

# Table of Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>2</b>
<b>TABLE OF CONTENTS .....</b>	<b>4</b>
<b>ABOUT TASWATER .....</b>	<b>6</b>
OUR MAIN UNDERTAKINGS .....	6
GOVERNANCE .....	6
OPERATING ENVIRONMENT .....	6
<b>OUR FIRST YEAR .....</b>	<b>8</b>
FIRST YEAR PRIORITIES .....	8
CORE BUSINESS INITIATIVES .....	8
INFRASTRUCTURE IMPROVEMENT PROJECTS .....	9
<b>OUR STRATEGIC FRAMEWORK .....</b>	<b>10</b>
A FUTURE BUILT ON TRUST AND RESPECT .....	10
REALISING THE VISION .....	10
KPIs, TARGETS AND INITIATIVES .....	11
<b>VALUE DRIVER 1: CUSTOMER &amp; COMMUNITY VALUE .....</b>	<b>12</b>
STRATEGIC THEME: ' <i>CUSTOMER FOCUSED AND PART OF THE COMMUNITY</i> ' .....	12
CUSTOMER SERVICE .....	12
WATER .....	13
WASTEWATER .....	13
<b>VALUE DRIVER 2: PEOPLE &amp; CULTURE .....</b>	<b>15</b>
STRATEGIC THEME: ' <i>ONE TASWATER</i> ' .....	15
SAFETY .....	15
POSITIVE CULTURE .....	15
REGIONAL BALANCING .....	16
PERFORMANCE CAPABILITY .....	16
<b>VALUE DRIVER 3: QUALITY OF PRODUCT &amp; SERVICE .....</b>	<b>17</b>
STRATEGIC THEME: ' <i>LONG TERM ASSET MANAGERS</i> ' .....	17
LICENCE CONDITION COMPLIANCE .....	17
WATER QUALITY .....	18
SEWERAGE SERVICES .....	18
<b>VALUE DRIVER 4: BUSINESS SYSTEMS &amp; PROCESSES .....</b>	<b>20</b>
STRATEGIC THEME: ' <i>FIT-FOR-PURPOSE AND ENABLING</i> ' .....	20
STANDARDISATION .....	20
<b>VALUE DRIVER 5: FINANCIAL &amp; COMMERCIAL PERFORMANCE .....</b>	<b>21</b>
STRATEGIC THEME: ' <i>FINANCIALLY SUSTAINABLE</i> ' .....	21
<b>STRATEGIC RISKS .....</b>	<b>23</b>
<b>OPERATING AND CAPITAL BUDGETS .....</b>	<b>25</b>
FORECAST GROWTH AND DEMAND .....	25
REVENUE AND EXPENSE ASSUMPTIONS .....	25
<i>Revenue Assumptions</i> .....	25
<i>Fixed water and sewerage income</i> .....	25
<i>Developer charges</i> .....	25
<i>Other Assumptions</i> .....	25

<i>Non-Interest Expense Assumptions</i> .....	26
<i>Interest Expense Assumptions</i> .....	26
<i>Capital Expenditure Projections</i> .....	27
<i>Current capital projects extending into the planning period</i> .....	27
<i>Projects planned to commence in the planning period</i> .....	28
<i>Capital Works Projection – the next ten years</i> .....	28
<b>FINANCIAL PROJECTIONS</b> .....	<b>29</b>
BALANCE SHEET.....	30

## About TasWater

TasWater commenced operating on 1 July 2013 and is owned by Tasmania's councils. It provides water and wastewater services to residential and business customers across Tasmania.

### Our main undertakings

We provide two essential services in Tasmania:

- The sourcing, treatment, and delivery of reliable, quality drinking water to our customers; and
- The collection, transportation, treatment and safe return of the wastewater to the environment.

### Governance

In undertaking these duties, TasWater's actions are governed by a range of regulatory and legislative instruments including but not limited to:

- The Water and Sewerage Corporation Act 2012
- The Water and Sewerage Industry Act 2008
- Environmental Management and Pollution Control Act 1994 (EMPCA)
- Public Health Act 1997
- Shareholders' Letter of Expectations
- Land Use Planning Approvals Act 1993.

### Operating environment

Following commencement of operations on 1 July 2013, the primary focus of the Board has been the merging of the operations of the four former corporations as quickly and as smoothly as possible, whilst ensuring no loss of attention on business as usual.

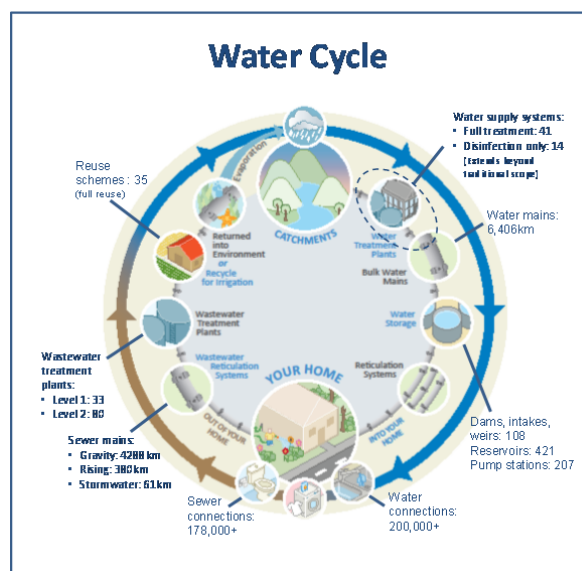
At the same time the Board has had a focus on ensuring that the cost savings identified pre-merger will be delivered.

We have been considering how our efforts can achieve greater efficiency, improve water quality and enhance environmental performance from a state-wide perspective.

TasWater employs 824 people and has in excess of \$2 billion in assets.

In meeting the needs of our customers we cover an area approximately 68,000km<sup>2</sup> and manage a network of 6,380km of water mains to provide water to over 200,000 water connections.

Figure 1: Water Cycle



To transport wastewater from over 178,000 sewerage connections, we manage a network of 4,288km of gravity mains, 380km of rising mains and 728 sewer pump stations.

To process this wastewater so that it can be safely returned to the environment, we manage 33 level 1 and 80 level 2 sewage treatment plants.

Operating such a large and widely dispersed asset base presents a number of operational and logistical challenges that requires careful management and detailed planning.

The breadth and scale of the program required to address ageing infrastructure and non-compliant water and wastewater services continue to pose significant challenges to customer affordability, and puts a considerable constraint on how quickly these challenges can be met.

There is a desire in some quarters to relocate a number of sewage treatment plants. In conjunction with this desire, the opportunity exists to rationalise a number of these plants, particularly those plants discharging into the Tamar and Derwent rivers.

Whilst all of these matters are under consideration, the reality is that any solutions which address rationalisation and relocation will require another source of funding.

To ensure that the needs of our stakeholders are carefully considered during solution design, TasWater is continuing to focus on talking with our customers and other key stakeholders in the development and implementation of innovative, intergenerational and affordable solutions.
















# Our First Year

## First Year Priorities

Given the extent of change involved in creating a single water and sewerage corporation from the four former corporations, it has been necessary to ensure that there is focus and activities are prioritised. The following table sets out our Year One priorities and the status of those priority areas at the time of preparing this Corporate Plan.

**Table 1 First Year Priorities**

Priority	Objective	Goals	Status	Progress
<b>Safety &amp; Environment*</b> “Zero harm”	Improve safety Performance	Reduction in injuries		21% reduction in LTIFR to March 2014
		Zero notifiable incidents		7 to March 2014
<b>Transformation</b> “One Business”	Build a state-wide operation	Introduce new operating model		Completed
		Restructure to align with operating model		On track for August 2014 completion
		Single Enterprise Agreement		On track
		Develop clear direction for future		Strategy and Corporate Plan developed
		Develop values and brand to align with new direction		On track for completion by June 2014
		Establish common systems and processes		Range of initiatives underway
<b>Financial Performance</b> “Merger benefits”	Deliver savings	Meet budget profit before tax		On track
		Deliver year 1 savings of \$2.5M		On track
<b>Public Perception</b> “Listen, learn & engage”	Improve public perception of Taswater/ former corps	Increase key stakeholder support for TasWater		80% reduction in unfavourable media coverage
		Headworks review completed by April 2014		Complete
		Draft Price & Services Plan 2 submission to regulator by August 2014		On track

## Core business initiatives

In addition to the goals set out in Table 1 First Year Priorities, a number of core business initiatives have been introduced to improve our services, further develop our core competencies and reduce risks to public health and the environment. These include:

- A program of direct engagement at senior level with key stakeholders to ensure we are addressing what matters and better understand stakeholder perspectives;
- Training and development programs for our people targeted at increasing capability in areas which will be vital for the future;
- Recruiting new people into the organisation to fill critical skill gaps;
- Introduction of a new complaints handling procedure to improve customer outcomes and reduce the turnaround time for complaints;
- Identification of all commercial and industrial customers that discharge trade waste into our network, expansion of the interim trade waste information management database state-wide, and modelling for separation of sewerage and trade waste charges for commercial customers;

- Conducting a comprehensive state-wide review of the safety of our dams and development of a program of activities to ensure risks are mitigated to the minimum extent practicable;
- Development of key financial and regulatory models necessary for informing long-term pricing and financial strategies;
- Improving the reliability of SCADA systems and increasing the extent of feedback from field sensors;
- Setting up an incident management system which facilitates a co-ordinated and responsive program for addressing key operational issues;
- Implementing a program targeting better management of our key catchments involving increased raw water sampling, catchment inspections and investigations and improving methods for the identification of pathogen risks; and
- Targeting a reduction in the number of dry weather overflows from sewage pump stations, particularly those that overflow into nearby receiving waters by addressing a number of undersized and unreliable pump stations.

### **Infrastructure Improvement Projects**

Some of the project highlights of the past twelve months include:

- The \$8.2 million Lauderdale Sewerage Scheme (central and northern) activated in March 2014 with southern Lauderdale scheduled for activation in June 2014, reducing the risk of environmental impact from septic tank deterioration;
- The \$3 million Taroona-Sandy Bay sewage pipeline completed in December 2013 and the Taroona Sewage Plant decommissioning project initiated in March 2014 to reduce the risk of environmental damage;
- The Parker Street Sewage Pump Station (Devonport) improvements in December 2013 to reduce odour issues; and
- The \$7 million Lilydale water supply network completed in December 2013, providing safe drinking water for 380 residents.

# Our strategic framework

## A future built on trust and respect

Our vision is to be *'A trusted and respected provider of essential services that is making a positive difference to Tasmania'*.

This vision reflects the strong desire of the Board and employees of TasWater to focus on what really matters for our owners, customers and the general community who are dependent on us for what are, in effect, essential services.

We see that there is considerable opportunity to make a positive difference for Tasmania by aligning our decision-making with the economic interests of the state, delivering fit-for-purpose solutions and great customer service.

Ultimately we hope to build trust and respect by virtue of what we do and how we do it.

## Realising the Vision

In developing a strategic plan for the corporation we have consulted widely with our customers and other key stakeholders to ensure we have a clear picture of what is expected of us. This is reflected in our vision and will guide many of our key decisions and behaviours.

After an extensive period of internal and external consultation we have identified the key value drivers, strategic themes and strategic objectives that form the basis of our strategy.

Further we have commenced work on finalising the key measures that we will use internally to assess our performance and that we expect will likely form part of any assessment by external parties.

**Figure 2: Strategic Framework**

Vision	A trusted and respected provider of essential services that is making a positive difference to Tasmania				
Core Business	<ul style="list-style-type: none"> <li>The sourcing, treatment and delivery of reliable, quality water to our customers</li> <li>The collection, transportation, treatment and safe return of wastewater to the environment</li> </ul>				
Value Drivers	Customer & Community Value	People & Culture	Quality of Product & Service	Business Systems & Processes	Financial & Commercial Performance
Strategic Themes	"Customer focussed and part of the community"	"One TasWater"	"Long term asset managers"	"Fit-for-purpose and enabling"	"Financially Sustainable"
Strategic Objectives	Be a trusted & respected provider of essential services	Develop capable, empowered & accountable people committed to zero harm	Provide products & services that deliver positive outcomes for Tasmania	Build fit-for-purpose consistent systems that enable 'best for business' outcomes	To deliver sustainable financial outcomes that enhance the state's economic prosperity
Key Measures	Customer & community perceptions of TasWater	Safety performance & positive culture	Environment, public health and service delivery performance	Operational effectiveness	Performance against key financial objectives

## **KPIs, Targets and Initiatives**

The following sections of the Corporate Plan set out the targets and initiatives by Value Driver that support the delivery of the strategic objectives set out in Figure 2.

A number of our KPIs, targets and initiatives are still under development, consistent with the fact that we are in our first year of operation as a single corporation.

It should also be noted that a number of the KPIs reported are transitional and may be modified when further work has been completed on the strategic plan.

The regulatory KPIs for Financial Years 2016 and 2017 are subject to the outcomes of the next Pricing & Services Plan (FY 2016 – 2018) and budget approval.

We aim to provide a more fulsome and complete set of KPIs, targets and initiatives in next year's Corporate Plan.

## Value Driver 1: Customer & Community Value

### Strategic theme: *'Customer focussed and part of the community'*

As a provider of essential services within Tasmania, TasWater has an important role to play within the community.

Our strategic objective is to:

*'Be a trusted & respected provider of essential services'.*

The Customer Service Standards used for measuring our success in strategic objective delivery are transitional and we are targeting improvements to benchmark levels by 2020. These benchmarks are currently under review by the Economic Regulator.

### Customer Service

Table 2: KPIs, Targets & Initiatives

Strategic Objective: Be a trusted & respected provider of essential services					
Key Measures: Customer & community perceptions of TasWater					
KPIs	Regulator Benchmark	EOY 2013-14 Estimate	Targets		
			2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Percentage of calls answered by an operator with 30 seconds	90%	80%	80%	85%	90%
New connections – percentage connected within 10 business days	N/A	90%	95%	95%	95%
Total water and sewerage complaints per 1,000 customers per annum	9	8	8	7	7
Water and sewerage complaints to Ombudsman per 1,000 customers per annum	0.5	0.5	0.5	0.5	0.5

Key Initiatives	Estimated Completion
Customer Survey	Q1 FY2015
Introduction of new Headworks methodology	Q1 FY2016
Customer service process reviews	Under development
Set up capacity for calls from all regions to be answered from any call centre location	Under development
Consolidation and review of all customer data bases	Under development
<i>(Significant secondary benefits delivered through other initiatives across the business)</i>	

## Water

**Table 3: KPIs, Targets & Initiatives**

Strategic Objective: Be a trusted & respected provider of essential services					
Key Measures: Customer & community perceptions of TasWater					
KPIs	Regulator Benchmark	EOY 2013-14 Estimate	Targets		
			2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Unplanned water supply interruptions per 100km	32	68	65	Under Development	Under Development
Average minutes taken to attend Priority 1 bursts and leaks (minutes)	30	55	50	Under Development	Under Development
Average unplanned customer minutes off water supply (minutes)	20	30	30	Under Development	Under Development
Average planned customer minutes off water supply (minutes)	15	30	30	Under Development	Under Development
Average frequency of unplanned water supply interruptions (number per customer)	0.1	0.25	0.25	Under Development	Under Development
Average frequency of planned water supply interruptions (number per customer)	0.1	0.2	0.15	Under Development	Under Development
Unplanned interruptions restored within 5 hours (%)	98	80	85	Under Development	Under Development

Key Initiatives	Estimated Completion
Major periodic maintenance plans	Q2 FY2015
Development of team led maintenance programmes	Q3 FY2015
Consolidated Asset Management Plan	Q4 FY2015
SCADA and Network Alarms Program (critical assets)	Q4 FY2015

## Wastewater

**Table 4: KPIs, Targets & Initiatives**

Strategic Objective: Be a trusted & respected provider of essential services					
Key Measures: Customer & community perceptions of TasWater					
KPIs	Regulators Benchmark	EOY 2013-14 Estimate	Targets		
			2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Sewerage breaks and chokes per 100km	28	61	59	Under Development	Under Development
Average time to attend sewage spills, breaks and chokes (minutes)	41	65	60	Under Development	Under Development
Average sewerage service interruption (minutes)	150	180	180	Under Development	Under Development
Sewage spills contained within 5 hours (%)	99	91	92	Under Development	Under Development

Key Initiatives	Estimated Completion
As per water initiatives	As per above
Sewage Spill Abatement project	Q3 FY2015

In addition to seeking to exceed the benchmarks of the regulator, we anticipate developing additional targets to help us drive customer performance outcomes across all aspects of our operation.

## Value Driver 2: People & Culture

### Strategic Theme: 'One TasWater'

Our people are pivotal to our success, hence it is important that we invest in their development and personal safety.

Our strategic objective is to:

*'Develop capable, empowered & accountable people committed to zero harm'.*

Achieving this objective will require development of a working culture that is consistent state-wide and where safety and personal development remain top priorities.

**Table 5: People & Culture KPIs, Targets and Initiatives**

Strategic Objective: Develop capable, empowered & accountable people committed to zero harm					
Key Measures: Safety performance & positive culture					
KPIs	Corporate Plan 2013-2015 Target	EOY 2013-14 Estimate	Targets		
			2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Average sick leave days per employee	<4	5.5	<4	<4	<4
Lost time injury frequency rate (LTIFR)	<8	18	9	4.5	4
Safety interactions	200	200	200	200	200
Accredited qualification completion	N/A	50%	60%	70%	75%
Workplace culture	N/A	N/A	To be developed		

Key Initiatives	Estimated Completion
Safety Leadership Development program	Q1 FY2015
Behavioural Safety Improvement Strategy	Q1 FY2015
Health & Safety Plan	Q1 FY2015
State-wide Enterprise Agreement	Q1 FY2015
Project & Contract Management development programs	Q2 FY2015
Performance Management Framework	Q4 FY2015
TasWater Succession Plan	Q1 FY2016

### Safety

TasWater is committed to protecting the health, safety and wellbeing of our employees and contractors and achieving our goal of zero harm.

To achieve this, we will provide balanced and structured health and safety systems, programs and processes that empower all workers and leaders to effectively manage safety and health.

### Positive culture

Over the coming twelve months the development of a series of work place culture indicators will be developed.



**Regional Balancing**

TasWater remains committed to maintaining the regional balance of full-time equivalents as transferred from the regional corporations.

**Performance capability**

To build performance capability we intend to redefine and extend the pre-existing People and Capability Strategy to support an improved and consistent state-wide delivery model in the following areas:

- Workforce planning
- On-boarding
- Performance management
- Training and development (including H&S training programs)
- Leadership development across all levels of the organisation
- Talent management
- Career pathway planning
- Succession planning.

In order to continue development of a high performance organisational culture, targeted and customised training will be implemented to achieve enhanced performance levels, improved workplace culture, and increased efficiency.

## Value Driver 3: Quality of Product & Service

### Strategic Theme: 'Long Term Asset Managers'

As a provider of essential services, the quality of our products and services contributes to the wellbeing of the community and the environment.

Our strategic objective is to:

*Provide products & services that deliver positive outcomes for Tasmania*

A number of significant challenges exist such as ageing or non-compliant infrastructure and an array of geographic complexities with customer affordability constraining solution implementation.

**Table 6: Product Quality KPIs, Targets and Initiatives**

Strategic Objective: Provide products & services that deliver positive outcomes for Tasmania					
Key Measures: Environment, public health and service delivery performance					
KPIs	Regulators Benchmark	EOY 2013-14 Estimate	Targets		
			2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
<b>Water</b>					
Percentage of potable systems compliant with ADWG microbiological guidelines %	100%	92%	95%	98%	99%
Number of towns on long term boil water alerts or public health alerts	0	25	20	13	8
Percentage of systems compliant with average fluoride concentration within target range 0.8 – 1.2 mg/L %	100%	85%	95%	100%	100%
<b>Wastewater</b>					
% of treated volume fully compliant with EPA requirements (NWI E4)	100%	50%	58%	61%	67%

Key Initiatives	Estimated Completion
Sewage Spill Abatement Project	Q3 FY2015
Sewerage Treatment Plant Process & Asset Audit Program	Q3 FY2015
Trade Waste Customer Consent/Contract Program	Q4 FY2015

### Licence Condition Compliance

As reported in the Economic Regulator's Water and Sewerage State of the Industry report<sup>1</sup>, the majority of level 2 sewage treatment plants do not fully comply with licence conditions.

The Report also observes that there are a number of dams that do not comply with safety standards and a number of drinking water systems do not comply with water quality standards.

In response the corporation has approved Compliance Implementation Plans for Sewerage, Drinking Water, Asset Management and Dam Safety.

These Plans detail the priority and work required to achieve full compliance of the associated assets and are currently being reviewed and combined into a single state-wide

<sup>1</sup> Office of the Tasmanian Economic Regulator, Tasmanian Water and Sewerage State of the Industry Report 2011-12, 2013

plan for regulatory approval in conjunction with the development of the new Price and Service Plan.

TasWater has conducted a review of all environmental licenses associated with sewerage treatment plants and renegotiated timeframes on over 30 new permits to allow sufficient time to meet EPA requirements. Programs of environmental assessment and investigation are being rolled out to inform future discharge limits for most of TasWater's sewerage treatment plants in alignment with EPA expectations.

A review of compliance with water extraction licenses will be undertaken to ensure TasWater is not compromising environmental values of freshwater systems.

### **Water Quality**

As at March 2014 there are 23 drinking water systems subject to Boil Water notices and 3 systems on Public Health Alerts advising customers that the water is not to be consumed. While this represents around one third of all TasWater's drinking water systems, this impacts only 1.5% of TasWater's customer base.

TasWater will be progressing a range of projects targeted on improving drinking water quality in small towns, particularly in the north east, with some to be progressed in the north west and south.

The scenario of many non-compliant small systems with low populations presents a challenge for TasWater as the cost per customer required to rectify drinking water quality is typically much higher than that for larger urban centres.

Several projects are being initiated over the Corporate Plan period to address critical drinking water quality non compliances and it is anticipated that the number of towns where the water is not potable will decrease substantially over the next three years.

This Plan sees the construction of water treatment plants for the removal of permanent boil water alerts at six of these towns. Consultation will also continue with smaller communities aimed at removing the requirement for permanent boil water notices through the provision of alternative water supplies.

Other systems where water is considered potable but experience sporadic quality problems are also addressed with projects targeted towards improving disinfection performance, reservoir roofing and upgrades of older infrastructure.

Upgrades to fluoride systems will be rolled out through the plan period to meet the requirements of the new Fluoride Code of Practice and to improve dosing reliability and control.

### **Sewerage Services**

As previously noted, compliance was a significant driver for the recent water and sewerage industry reforms. Considerable sewerage service compliance challenges still remain. Significant capital investment and operational changes will be required to improve compliance.

In order to inform the setting of contemporary discharge limits, the EPA require TasWater to conduct numerous environmental studies. The effect of these is that many sites will have more stringent discharge requirements necessitating plant upgrades; others may prove feasible for beneficial irrigation. It is anticipated that these environmental studies will largely

be concluded over the Corporate Plan period thus providing greater clarity for TasWater to design and invest in fit for purpose infrastructure that protects the environment.

A challenge faced by TasWater is the number of remote sites and simple, lagoon based treatment systems which have variable performance and process control. A range of measures and upgrades are targeted towards improving the output of these systems.

To improve the performance of larger plants, which have a greater proportional effect to the volume of sewage compliance, TasWater will be progressing key wastewater strategies for major urban centres including Hobart and Launceston. These long-term projects may involve rationalisation of smaller plants and upgrades to improve effluent quality.

At a smaller, more local level, TasWater also operates over 30 small “Level 1” sewage treatment plants. While not regulated by the EPA, many of these will still require attention and upgrading. Several of these sites will be upgraded across the Corporate Plan period.

## Value Driver 4: Business Systems & Processes

### Strategic Theme: 'Fit-for-purpose and enabling'

TasWater is committed to providing our services as efficiently as possible. Given the geographic and demographic challenges it is important to scale our processes and systems correctly to ensure we deliver the greatest benefit at the lowest cost for our customers.

Our strategic objective to achieve this is to:

*Build fit-for-purpose consistent systems that enable 'best for business' outcomes*

**Table 7: Business Systems & Processes KPIs, Targets and Initiatives**

Strategic Objective: Build fit-for-purpose consistent systems that enable 'best for business' outcomes					
Key Measures: Operational effectiveness					
KPIs	Corporate Plan 2013-2015 Target	EOY 2013-14 Estimate	Targets		
			2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Efficiency of capital spend					
Data quality improvement					
IT systems effectiveness					
Risk management					
Maturing					
Inventory management					
Standardisation of procedures					

Under Development

Key Initiatives	Estimated Completion
Parcel up minor capital projects to reduce costs	Q2 FY2015
Standardisation of processes and systems	Q2 FY2015
Instigate procurement panels for capital projects	Q2 FY2015
Develop Field Service Mobility Solution (FSMS)	Q3 FY2015
Create consistent state-wide capital delivery system	Q3 FY2015
Develop state-wide IT strategies	Under development
Purchase Asset Management Information System (AMIS)	Under development

### Standardisation

The consistency and suitable scaling of our systems and processes remains a primary focus for facilitating delivery of benefit for our customers. To achieve the efficiency gains required, our approach is to ensure our systems and processes are nothing more and nothing less than what is required.

## Value Driver 5: Financial & Commercial Performance

### Strategic Theme: 'Financially Sustainable'

Our strategic objective is:

*To deliver sustainable financial outcomes that enhance the state's economic prosperity*

In our first year of operation, we have concentrated on consolidating our financial position and delivering the promised merger benefits.

As we progress through the remainder of the corporate planning period, we will move our attention to ensuring we meet the Regulator's lower limit of financial sustainability.

We will also be looking to ensure that the investments we make support the broader objective of enhancing the state's economic prosperity within the bounds of our financial capacity.

**Table 8: Financial Ratios KPIs, Targets and Initiatives**

Strategic Objective: To deliver sustainable financial outcomes that enhance the state's economic prosperity outcomes				
Key Measures: Performance against key financial objectives				
KPIs	EOY 2013-14 Estimate	Targets		
		2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Return on Assets	2.8%	3.0%	3.2%	3.3%
Return on Equity	3.5%	3.9%	4.1%	4.3%
Debt to Equity Ratio	21.3%	22.3%	24.4%	26.3%
Interest cover ratio	3.2	3.3	3.2	3.1
Working capital ratio	0.53	0.45	0.44	0.43

Key Initiatives	Estimated Completion
Leverage scale to drive increased value in procurement arrangements	Q3 FY2015 Major improvements realised
Develop dynamic whole-of-business financial model	Under development

**Table 9: Merger Efficiency KPIs, Targets and Initiatives**

Strategic Objective: To deliver sustainable financial outcomes that enhance the state's economic prosperity outcomes			
Key Measures: Performance against key financial objectives			
KPIs	Corporate Plan 2013 – 2015 target	EOY 2013-14 Estimate	Targets
			2014-15 Forecast
Merger efficiency	FY2014 - \$2.5M FY2015 -\$5.0M	\$2.7M	\$5.2M

Key Initiatives	Estimated Completion
Revenue leakage program	Q1 FY2015
Operational efficiency program	Q1 FY2015
Organisation restructure	Q1 FY2015

## Strategic Risks

An interim review has identified the key strategic risks that could impact the business. As we gain further understanding of our assets and business it is likely that our assessment of key risks may change.

A range of key controls have been put in place and will be subject to further review over the following 12 months.

**Table 10: Risk Matrix**

Inherent strategic risk	Consequence	Key controls	Risk oversight responsibility & report frequency
Drinking water treatment failure	Widespread illness and/or multiple fatalities	Drinking Water Quality Management Plan Protocol for provision of non-potable supplies Catchment management plans Internal & external testing regimes Operations and maintenance manuals Automated critical control point management Senior management and Board Committee oversight	EPH Committee (Quarterly)
Dam failure	1. Major downstream infrastructure damage and/ or multiple fatalities 2. Extended loss of water supply for customers	Dam Safety Management Plan Independent reporting on controls and mitigations Dam Emergency Management Plan Inspection regimes Renewals and relining programs Senior management and Board Committee oversight	Board (Six monthly reports and monthly report on controls)
Serious Workplace incident	Permanent injury or fatality	Safety Committees Health and Safety Management system inductions and ongoing training Senior management and Board oversight Insurance policy	Board (Monthly)
Loss of revenue	1. Loss of operating license 2. Inability to meet key financial commitments	Extensive modelling and analysis leading into Pricing and Services Plan submission External expert advice Economic regulatory framework Annual borrowing approvals through Treasury and Treasury management policies Long-term Capex and Opex plans Senior management and Board oversight	Board (Monthly)
Critical structural or process failure	Significant environmental harm or serious threats to employee and/or public health and safety	Internal and external inspection regimes Operations and maintenance oversight Insurance policy Environmental management system Renewals program Contingencies and redundancy for critical infrastructure Senior management and Board Committee oversight	Board (Monthly)
Natural disaster eg bushfire, earthquake	1. Extended loss of water supply for customers 2. Inability to treat sewage 3. Major financial losses	Emergency Management Framework Business Continuity Plan IT Disaster Recovery Plan Decentralised business model Strong external emergency services relationships	AAR Committee (Annual)
Major sewer spill in public area	Exposure of the public to contaminants and major public health alert	Inflow and infiltration reduction programs Renewals and relining programs Contingencies and redundancy for critical infrastructure Trade waste source control Emergency response protocols Operations and maintenance manuals Automated monitoring and control systems Senior management and Board Committee oversight	EPH Committee (Quarterly)



Inherent strategic risk	Consequence	Key controls	Risk oversight responsibility & report frequency
Inability to manage competing priorities of key stakeholders	Widespread dissatisfaction and loss of confidence in the corporation	Key Stakeholder engagement – customer groups, Regulators, industry groups, Owners' Representatives and members of State Government Policies, legislation and guidelines, strategic planning and Price and Service Plan development Economic regulatory oversight Board oversight	Board (Monthly)
Major legislative and regulatory compliance failures	Prosecution, significant financial penalties or loss of Operating Licence	Compliance management framework Working relationships with Regulators Senior management and Board oversight Ongoing system optimisation Customer Service Excellence Framework Regulatory oversight and public reporting	Board (Monthly)
Extended Industrial disputes	Major financial loss and/or service disruption	Established EA Strategy Contingency Plan Senior Management and Board oversight	Board (monthly during EA negotiation period)

# **Operating and Capital Budgets**

## **Forecast Growth and Demand**

The growth assumptions included in this Plan are consistent with those used in the development of the Price and Service Plan (PSP1).

The water connections are forecast to increase at an average growth rate of 0.5% year on year.

Demand for water varies significantly depending on whether summers are wet or dry and the demand forecast in the Corporate Plan is based on an average summertime rainfall year.

## **Revenue and Expense Assumptions**

### **Revenue Assumptions**

Total revenue for 2014-15 is forecast to be \$286 million, increasing to \$298 million in 2015-16 and \$309 million in 2016-17. The growth in revenue is 4.7% in 2014-15, 4.3% in 2015-16 and 3.6% in 2016-17.

### **Fixed water and sewerage income**

The current Price and Service Plan (PSP2) has made allowances for a fixed tariff reduction in 2014-15 of up to 5% for those customers whose current charges are above the target tariffs. There is the possibility that some revenue leakage may occur as some of the connection sizes were unknown in the non-metered regions when the Price and Service Plan was developed.

The income for Financial Years 2015-16 and 2016-17 is based upon assumed pricing outcomes in PSP2. These assumptions are subject to the Economic Regulator's final decision on PSP2.

### **Developer charges**

The State Government has made a recent policy announcement relating to the headwork component of developer charges and we will continue to work closely with our owners to implement a suitable methodology following the headworks review.

### **Other Assumptions**

Servicing and consulting income is forecast to be \$3.1 million in 2014-15 compared to \$6.2 million in 2013-14. This higher income in 2013-14 is due to the commencement of the Lauderdale Sewerage Scheme and associated connection income.

### **Non-Interest Expense Assumptions**

The following assumptions underpin the expenses in the Plan:

- CPI is assumed to be 2.5%.
- Power costs (including LPG) are assumed to increase by 5%
- Chemicals are assumed to increase by 4%.
- Total payroll costs are forecast to be lower in 2014-15, reflecting restructure savings.
- Cash management through a centralised Treasury function lowers interest expense.

### **Interest Expense Assumptions**

The average interest rate for the loan portfolio, including the Loan Guarantee Fee (LGF), is forecast at 6.0% for the planning period.

A credit rating equivalent to an S&P rating of "A" has been assumed for the Plan. Changes to this credit rating will impact the level of LGF that has to be applied to the loan portfolio.

The forecast debt to equity ratio and interest cover ratio are projected to be 26.3% and 3.1 times respectively at the end of the Corporate Plan period.

## Capital Expenditure Projections

The capital works program honours the commitments made by the previous Tasmanian water and sewerage companies our regulators.

**Table11: Forecast Capital Expenditure**

Capital Expenditure (by Driver)	2013-14 Estimate	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
<b>Water</b>				
Growth	2,645	1,026	4,973	6,761
Renewal	11,240	8,008	10,005	8,796
Compliance	18,995	14,619	24,282	19,157
Improvement	2,539	2,815	3,401	4,505
<b>Total</b>	<b>35,419</b>	<b>26,468</b>	<b>42,661</b>	<b>39,219</b>
<b>Wastewater</b>				
Growth	1,778	1,490	3,166	539
Renewal	8,007	5,922	5,352	5,186
Compliance	20,095	30,590	42,196	44,029
Improvement	2,786	7,992	1,989	7,612
<b>Total</b>	<b>32,666</b>	<b>45,994</b>	<b>52,703</b>	<b>57,366</b>
<b>Other</b>	<b>10,214</b>	<b>17,606</b>	<b>14,636</b>	<b>13,415</b>
<b>Grand Total</b>	<b>78,299</b>	<b>90,068</b>	<b>110,000</b>	<b>110,000</b>

## Current capital projects extending into the planning period

A number of capital projects are expected to continue into the corporate planning period. A number of the more significant projects are listed below.

Some of the approved major projects continuing into the planning period are as follows.

**Table 12: Major projects (continuing)**

Project	Description	Budgeted Capital Expenditure	Timeline
Ringarooma Water Supply Upgrade	Construction of a new treatment plant, pipelines, pump stations and reservoirs. The scheme will service the towns of Ringarooma, Ledgerwood, Branxholm and Derby	\$9.6M	For completion by December 2015
Rosebery WasteWater Upgrade	Construction of a new sewerage treatment plant, pipelines and pumpstations	\$7.1M	For completion by February 2016
Sewerage Treatment Inlet Works	Installation of inlet screens and grit removal at 11 plants across Southern Tasmania	\$5.5M	For completion by Dec 2016
Ouse & Hamilton Water Supply Upgrade	Construction of a new water treatment plant, pump stations and pipelines	\$4.2M	For completion by July 2015
Ridgeway Dam Anchor Renewals (Planning)	Investigate and design replacement rock anchors for the Ridgeway Dam to provide a life extension of 100 years	\$1.6M	For completion by July 2015

### Projects planned to commence in the planning period

The following table lists some of the major infrastructure projects that we anticipate will commence in the planning period. It should be noted that a number of these projects are subject to reaching agreement with regulators under the next Price and Service Plan (PSP2) and the internal business case approval process.

**Table 13: Planned Projects**

Project	Description
Rosebery Water Treatment Plant	Construction of a new water supply system for Rosebery
Bridport Sewerage Treatment Upgrade	Construction of a new reuse scheme and pipelines
Brighton Sewage Treatment Plant	Construction of new lagoon, inlet works and disinfection
Tolosa Dam Decommissioning (Phase 1)	Decommissioning of the dam and construction of two reservoirs and connecting pipework to replace the Tolosa Dam
Kingbrough Sewerage Treatment Upgrade (Phase 1):	Major process upgrade to delivery increased capacity from the Blackmans Bay Sewage Treatment Plant
King Island Water Supply Upgrade	Construction of a new water treatment plant and a connecting pipeline between Grassy and Currie

The list of anticipated projects is relatively limited as we are yet to complete our submission to the regulator which will identify the full range of projects for the next pricing and Services period which encompasses the last two years of the planning period for the Corporate Plan.

### Capital Works Projection – the next ten years

Given the inherited compliance challenges, our capital works program is likely to be geared towards addressing compliance objectives with capital works program spend predominantly allocated to compliance until 2019.

Projects to 2014-15 are weighted towards addressing water quality, while 2015-16 onwards is weighted towards wastewater initiatives.

Subsequent to 2019, it is anticipated that the focus of our Capital Works program will shift towards renewals for the remainder of the ten year period.

Projects within the underlying program are optimised and reprioritised on an annual basis and are therefore subject to change.

# Financial Projections

**Table 14: Forecast Profit and Loss**

Income Statement (000's)	2014-15 (Forecast)	2015-16 (Forecast)	2016-17 (Forecast)
<b>Water and sewerage revenue</b>			
Fixed charges	215,441	223,823	234,135
Volumetric charges	51,992	55,509	60,053
Services & consulting revenue	3,148	3,227	3,307
Headworks	-	-	-
Contributed assets	7,556	7,745	7,939
Government grants	6,499	6,499	1,874
Sundry revenue	1,116	1,144	1,372
<b>Total revenue</b>	<b>285,752</b>	<b>297,947</b>	<b>308,681</b>
Chemicals, power & royalties	20,684	21,511	22,049
Materials & services	28,124	28,827	29,548
Water sampling	2,849	2,920	2,993
Salaries & related personnel expenditure	72,990	75,180	77,435
Regulatory costs	3,245	2,650	2,716
Governance	1,159	1,188	1,218
Information systems	3,727	3,820	3,916
Customer collection expenses	2,948	3,022	3,097
Consultancy	5,257	5,388	5,523
Administration other	4,398	4,508	4,621
Community relations	716	734	752
Facility management	6,690	6,857	7,029
Insurance	1,953	2,051	2,102
Motor vehicle	4,021	4,122	4,225
<b>Total Expenses</b>	<b>158,761</b>	<b>162,778</b>	<b>167,223</b>
Earnings before interest & depreciation	126,991	135,169	141,458
Loan guarantee fee (LGF)	2,920	3,089	3,389
Interest expense	18,263	20,533	22,125
Depreciation	63,793	67,373	69,894
<b>Net Operating Profit Before Tax</b>	<b>42,015</b>	<b>44,174</b>	<b>46,051</b>
Tax	12,604	13,252	13,815
<b>Net Profit After Tax</b>	<b>29,410</b>	<b>30,922</b>	<b>32,236</b>

**Table 15: Projected Targeted Distributions**

Summary of Distribution to Owners (000's)	2013-14 (Estimate)	2014-15 (Forecast)	2015-16 (Forecast)	2016-17 (Forecast)
Loan Guarantee Fees	2,701	2,834	3,075	3,364
Tax Equivalents	9,112	12,231	13,090	13,674
Net Profit After Tax	26,164	29,410	30,922	32,236
Total Available for Distribution	37,978	44,476	47,087	49,274
Projected Distributions	29,000	30,000	31,200	32,448
Growth in Retained Earnings	8,978	14,476	15,887	16,826

**Balance Sheet**

Total assets are projected to be \$1,984 million at 30 June 2015 and increasing to \$2,089 million at 30 June 2017.

Receivables as a proportion of total revenue are forecast to be approximately 18% over the period of the Plan.

Total forecast capital expenditure over the three year corporate plan period is forecast to be \$310 million.

The 2013-14 opening property plant & equipment balance sheet values will be written down to reflect a revised impairment assessment. The major driver of the impairment is the revised expectation of future long term price increases.

At the time of preparation of this Corporate Plan we do not have a final impairment amount, and before finalising same it will have to be approved by the Tasmanian Audit Office.

However we expect that it is likely that impairment will fall within the range \$324 million to \$400 million.

For the purposes of the Corporate Plan we have used the low end of the range.

**Table 16: Balance Sheet Projections**

Balance Sheet (000's)	2014-15 (Forecast)	2015-16 (Forecast)	2016-17 (Forecast)
<b>Current Assets</b>			
Cash and Cash Equivalents	2,514	2,453	2,686
Receivables	50,469	52,623	54,519
Inventories	6,637	6,803	6,973
Prepayments	1,251	1,282	1,314
Current Tax Assets	5	-	-
<b>Total Current Assets</b>	<b>60,876</b>	<b>63,161</b>	<b>65,492</b>
<b>Non-Current Assets</b>			
Property Plant & Equipment	1,853,545	1,903,902	1,951,932
Intangibles	2,821	2,836	2,851
Deferred Tax Asset	66,474	67,054	68,249
Investment in Associate	-	-	-
Other	4	-	-
<b>Total Non-Current Assets</b>	<b>1,922,844</b>	<b>1,973,792</b>	<b>2,023,032</b>
<b>Total Assets</b>	<b>1,983,720</b>	<b>2,036,953</b>	<b>2,088,524</b>
<b>Current Liabilities</b>			
Borrowings	95,876	103,222	109,975
Employee benefits	15,145	15,599	16,067
Payables	20,858	21,379	21,913
Unearned Income	1,594	1,594	1,594
Current Tax Liability	1,826	1,657	1,727
Other	275	275	275
<b>Total Current Liabilities</b>	<b>135,574</b>	<b>143,726</b>	<b>151,551</b>
<b>Non-Current Liabilities</b>			
Borrowings	249,182	278,567	305,580
Employee benefits	12,116	13,925	15,832
Unearned Income	34,461	32,461	30,461
Deferred Tax liability	-	-	-
Other	4,218	4,218	4,218
<b>Total Non-Current Liabilities</b>	<b>299,977</b>	<b>329,171</b>	<b>356,091</b>
<b>Total Liabilities</b>	<b>435,551</b>	<b>472,897</b>	<b>507,642</b>
<b>Net Assets</b>	<b>1,548,169</b>	<b>1,564,056</b>	<b>1,580,882</b>
<b>Equity</b>			
Retained Earnings	23,453	39,340	56,166
Contributed Capital	1,524,716	1,524,716	1,524,716
<b>Total Equity</b>	<b>1,548,169</b>	<b>1,564,056</b>	<b>1,580,882</b>



**Table 17: Projected Cash Flow**

Cash Flow (000's)	2014-15 (Forecast)	2015-16 (Forecast)	2016-17 (Forecast)
Cash Flows from Operating Activities			
Receipts from Customers	271,713	280,405	295,600
Receipts Government/Grants	7,605	(856)	(628)
Payments to Suppliers and Employees	(183,428)	(180,475)	(185,308)
Refund from ATO	19,790	20,285	20,792
Interest Received	133	133	133
Interest Paid	(18,431)	(20,533)	(22,125)
LGF Paid	(2,834)	(3,075)	(3,364)
Income Tax Equivalents Paid (Rec)	(12,231)	(13,090)	(13,674)
Net Cash from Operating Activities	82,317	82,793	91,427
Cash Flows from Investing Activities			
Payments for Property, Plant, Equipment	(90,068)	(110,000)	(110,000)
Government Contributions	5,000	5,000	-
Proceeds from Property, Plant, Equipment	450	450	450
Net Cash From/(Used in) Investing Activities	(84,618)	(104,550)	(109,550)
Cash Flows from Financing Activities			
Proceeds from Borrowings	82,838	140,248	148,303
Repayment of Borrowings	(65,394)	(103,517)	(114,537)
Dividends Paid	(14,935)	(15,035)	(15,410)
Net Cash from Financing Activities	2,509	21,696	18,356
Net Increase (Decrease) For Year	207	(61)	233
Opening Cash Balance	2,307	2,514	2,453
Closing Cash Balance	2,514	2,453	2,686



**TasWater**