

Water Corporation —

Mr R.S. Love, Chair.

Mr D.J. Kelly, Minister for Water.

Mr P. Donovan, Chief Executive Officer.

Mr R. Hughes, Chief Financial Officer.

Mr M. Leathersich, General Manager, Operations Group.

Mr E. Hambleton, General Manager, Assets Planning Group.

Ms N. Arrowsmith, Chief of Staff, Minister for Water.

Mrs A. Cowdell, Senior Policy Adviser.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

The minister may agree to provide supplementary information to the committee rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 31 May 2019. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

I call the member for North West Central.

Mr V.A. CATANIA: I refer to the heading "Expenditure in the Regions" on page 670 of budget paper No 2. I understand the country water pricing subsidy is now being paid for out of royalties for regions. Can the minister tell me the amount of royalties for regions funding going into the country water pricing subsidy?

Mr D.J. KELLY: I am not the minister for royalties for regions, but I will give the member a hint. He can find the information in appendix 8, which is a list of royalties for regions projects. I suspect he will find it in there.

[9.50 pm]

Mr V.A. CATANIA: Can the minister not tell me exactly how much royalties for regions money is going into the country water pricing subsidy at the moment?

Mr D.J. KELLY: Not off the top of my head. I will give the member a hint. A list of them is in the budget.

Mr V.A. CATANIA: I would just like to know the number.

Mr D.J. KELLY: I am not the minister for royalties for regions. A list of them is in budget paper No 3. The member will find it there.

Mr V.A. CATANIA: Given that the minister does not know how much royalties for regions money has been put into the country water pricing subsidy, can he tell me what the government has done with the money that was in the country water pricing subsidy prior to his party coming to government? What has the government done with the money it has taken out of that subsidy and replaced with royalties for regions funding? Where has that money gone?

Mr D.J. KELLY: Again, that is not my responsibility. Under this portfolio area —

Mr V.A. CATANIA: The Water Corporation.

Mr D.J. KELLY: Does the member understand what it is? In the country we subsidise people's water so that everybody pays, at least in the lower tiers, the same —

Mr V.A. CATANIA: I understand that. I am trying to work out whether money has gone.

Mr D.J. KELLY: The member should let me answer the question. It is so people pay the same amount for water, regardless of whether they live in regional areas or in Perth. Previously, that subsidy was paid from consolidated revenue; it is now paid from royalties for regions. With the mess that you guys left us, we want to make sure that the country water pricing subsidy is maintained. This was a way of giving it secure funding into the future.

Dr D.J. HONEY: The 2016 Economic Regulation Authority report into cost reflectivity for water charges indicated that there would be full cost reflectivity by 2017–18 based on the forecast price increases. That included

the balance of the regional water subsidy. Is the income from Water Corp in 2019–20 above cost reflectivity; and, if so, by how much?

Mr D.J. KELLY: On the basis of the increases we have received in this budget, cost reflectivity for the Water Corporation at this time with the 2.5 per cent increase is 99 per cent.

Dr D.J. HONEY: Just to be clear, is the minister saying that the total amount of money that the government is putting into this, including the fees and charges that are returned, is only 99 per cent of the total cost of that service?

Mr D.J. KELLY: Cost reflectivity is 99 per cent for the Water Corporation on the basis of the increases in the current budget.

Dr D.J. HONEY: I will not waste time going through the numbers tortuously here, but if we look at 2019–20, I think it is \$960 million or thereabouts that is being paid by Water Corporation to government. The subsidy for the country water users is around only \$400 million. As the member for North West Central pointed out, that is progressively being subsidised in large part by royalties regions money. I am intrigued about how that can be at only 99 per cent cost reflectivity.

Mr D.J. KELLY: The net accrual to government under this budget is less than that in the last budget that the member's party handed down in government. The net accrual to government is less under this budget than in the last budget of the previous state government. The member needs to keep that in mind.

Dr D.J. HONEY: That was four budgets ago.

Mr D.J. KELLY: It was the budget that government took to the election. If the member's party had won and we had got to this point, it would have been budgeting for a greater net return to government.

Dr D.J. HONEY: Four budgets ago is meaningless.

Mr D.J. KELLY: The member may only have been here for a year, but everything has its history. The amount of dividends and other payments that are coming out of the Water Corporation—the net accrual to government is less than members opposite envisaged had they won the election.

Dr D.J. HONEY: I still cannot understand why we are not well above cost reflectivity. Perhaps the minister's accounting staff can help. There is an illusory charge in there of supposed taxation, which the state government never pays. There are also rates and charges, which the state government does not pay to itself. In fact, the government does have the net \$500 million cash. Based on that measure, when will we achieve cost reflectivity based on the forecast 2.5 per cent increase in price?

Mr D.J. KELLY: Predicting the future is always very difficult. I would be reluctant to give the member a figure because it depends on costs. The budget is predicated on there being 2.5 per cent increases across the forward estimates, which the member would be aware are the lowest increases in water since 2005–06. The budget assumes 2.5 per cent increases across the forward estimates. I could tell the member that in two or three years' time we would reach cost reflectivity, but that would be a prediction because it all depends on what the costs are. If the economy picks up and wages and costs go up, we might not reach cost reflectivity. The member is asking me to speculate about when we will. All I can say is that the advice I have received is that we are currently at 99 per cent.

Dr D.J. HONEY: I appreciate that there may be uncertainties, but the budget has published figures for inflation, wages and the like. I appreciate there will be other variables. The world could end tomorrow! Based on those variables, when do we estimate we will be at cost reflectivity. The water charges are increasing at about double actual inflation at 2.5 per cent.

Mr D.J. KELLY: The budget does not speculate on when we will reach cost reflectivity and I am not prepared to do that either.

Dr D.J. HONEY: It is the minister's department, so he should know.

The Water Corp has a project to double the groundwater replenishment from recycled water into the Gngangara mound from 14 gegalitres to 28 gegalitres. When will that project be completed?

Mr D.J. KELLY: At the end of this calendar year.

Dr D.J. HONEY: For the last three years, the level in the Gngangara mound has been increasing and, in fact, not decreasing. How much water does Water Corp estimate needs to be recharged to stabilise the water level in the aquifer if we were to return to the drier years before the last three years? Does Water Corp have an estimate of that?

Mr D.J. KELLY: There are a couple of bits in that question.

Dr D.J. HONEY: The water level of the Gngangara mound has been increasing in the last three years. There will be a doubling of the recharge from 14 gegalitres to 28 gegalitres, which is quite a substantial increase. I am trying

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Chair; Mr Vincent Catania; Mr Dave Kelly; Dr David Honey

to ascertain how much Water Corp estimates we need to recharge into the Gngangara mound to stabilise levels. It goes to the questions that we were asking before about the impending cut for the water users in north Wanneroo.

Mr D.J. KELLY: The water levels in the Gngangara mound have gone up slightly over the last two years because we have had some rain over the last two summers, but the long-term trend is still down. It would be foolish to assume that because we have had some rain in the last two winters groundwater levels in the Gngangara mound are not an issue.

The CHAIR: That completes the examination of the Water Corporation.