

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO DEVELOPER CONTRIBUTIONS FOR INFRASTRUCTURE COSTS ASSOCIATED WITH LAND DEVELOPMENT

**TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
ON WEDNESDAY, 7 APRIL 2004**

SESSION 2

Members

Mr J.B. D'Orazio (Chairman)
Mr M.G. House (Deputy Chairman)
Mr J.L. Bradshaw
Mr A.J. Dean
Ms J.A. Radisich

[9.45 am]

ODDY, MR GEOFFERY THOMAS

Chief Executive Officer, Aqwest-Bunbury Water Board,

P.O. Box 400,

Bunbury, examined:

Mr M.G. HOUSE (Deputy Chairman): Thank you for appearing this morning. I am obliged to read you a procedure for examination of witnesses. This committee hearing is a proceeding of Parliament and warrants the same respect that proceedings in the House itself demand. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as a contempt of the Parliament. Have you completed the "Details of Witness" form?

Mr Oddy: Yes, I have.

Mr M.G. HOUSE: Do you understand the notes attached to that witness form?

Mr Oddy: Yes, I do.

Mr M.G. HOUSE: Did you receive and read an "Information for Witnesses" briefing sheet regarding giving evidence before parliamentary committees?

Mr Oddy: Yes, I did.

Mr M.G. HOUSE: For the record, could you please state the capacity in which you appear before this committee?

Mr Oddy: I am appearing here as the Chief Executive Officer of Aqwest-Bunbury Water Board.

Mr M.G. HOUSE: We appreciate your appearing. This inquiry of the Public Accounts Committee is looking at developer contributions and the associated charges - some of those are commonly known as headworks charges - that might be applied to developments in a range of areas from what we call hard infrastructure like roads right through to soft infrastructure like perhaps preschools or playschools or those types of sites. Obviously, the issue for us here is the Water Corporation and Aqwest differentiation. We are keen to get a better understanding of how you operate and whether there are ways and means by which we can provide a better contribution system. Could you just give us a bit of background information about Aqwest for the record, please?

Mr Oddy: Yes. Aqwest's formal title is Bunbury Water Board. That is how it exists in statute. We were created under the provisions of the Water Boards Act 1904, and we operate as a statutory authority. We operate only within the licensed area that we have, which is the City of Bunbury and some areas just outside the City of Bunbury, and we provide water supply services only. We are not in waste water; we can provide only water supply services. It is an organisation that was largely a division of the City of Bunbury for a number of years until the 1996 reforms in accordance with COAG arrived. We were then separated from the City of Bunbury, and a board in its own right was appointed. Whereas the board had previously been the councillors of the City of Bunbury, we had a six-member board created in 1996, and we have operated in isolation from the City of Bunbury since about early 1997.

We have not been corporatised, as the Water Corporation has been, but we are expected to act as a commercial entity. In accordance with the tax equivalent regime that exists in this State, we pay company tax through the federal Government's processes, but it goes directly to the State. We do not pay a dividend to the State, as is the case with the Water Corporation. We believe that the

dividend is paid in kind to our customers; that is, our system is run on such a basis that the customers in Bunbury, on an average consumption use, pay about 20 per cent less than our equivalent customers with the Water Corporation. We receive no support from government through community service obligations, whereas an equivalent operation with the Water Corporation may receive a CSO. In our understanding, some of these for an equivalent city would be about 12 per cent of revenue. We believe we are paying something in the vicinity of a 30 per cent return to our customers.

Mr M.G. HOUSE: I am surprised that you are allowed to survive. I cannot in my own mind understand why you were not absorbed into the Water Corporation in the 1996 change.

Mr J.L. BRADSHAW: An attempt was made to do that in the 1980s.

Mr Oddy: That is right. In 1983 there was a proposal for us to be absorbed into the Water Authority of Western Australia, when it was created. There are a number of reasons, I believe, that we were not. Some of those may have been political; some of them may have been technical. However, we survived in our own right in the 1980s, and I do not think in 1996, when the Water Corporation was created, any thought was given to our takeover, because we were seen as an example of competition within the industry in Western Australia, so that their compliance with COAG was on the basis that we existed and we could provide some form of competition.

Mr M.G. HOUSE: Okay. I will just summarise. Basically, you provide no waste water treatment, so you are a supplier of a water resource to customers only.

Mr Oddy: That is right.

Mr M.G. HOUSE: You operate in a limited area.

Mr Oddy: That is right.

Mr M.G. HOUSE: To that end, you do not have an end-to-end state obligation to provide a water service to other areas.

Mr Oddy: That is right.

Mr M.G. HOUSE: Have you tested yourself outside your normal, regulated market?

Mr Oddy: We have some statutory problems in that respect. However, we did test ourselves in a development immediately south of Bunbury called Dalyellup. It was a process run by the Office of Water Regulation that was in existence at the time. We made submissions to the developer with regard to the provision of water to its development, and we were, unfortunately, not selected as the preferred supplier.

Mr A.J. DEAN: Can you tell us more about, first of all, who the developers were? Secondly, I have read your submission, and it has a lot of pages. It is one of many that we have received. Can you verbalise the costings for us so that we can get a handle on it? One of the problems we have had throughout this inquiry - and we have probably solved it in the past week or so - is to get people such as those from the Water Corporation to tell us where they get their costings from. Could you go through that process?

Mr Oddy: The development at Dalyellup was a joint development between, I think, Homeswest and the Satterley Property Group. We were asked to provide a submission for the provision of water supply. We were unable to participate in the process of competition for the waste water because we are not allowed to in terms of our legislation. In terms of the costs, we treated it as a stand-alone system, whereby it would not be subsidised in any way by our existing operations. The detail of the costings of the submission is contained in the report that I have provided to the committee.

In terms of headworks, what we submitted to the developer was our standard headworks fee. Our standard headworks fee is worked out on the costs associated with providing the headworks at the

next stage of expansion of our organisation. Therefore, the next treatment plant, the next storage reservoir and the next set of trunk mains are estimated in cost, and that is applied to the number of customers that are going to be served by a standard size treatment facility. Those figures are calculated to recover the cost of the next development of water supply, treatment, storage and distribution. We also run a check. We have not done it for a while, I might add. The last time that we did a formal calculation was in 1998. We have indexed it by CPI since then. That is submitted annually to the minister for approval. However, as happened the last time we did it, we run a check against what our existing assets are worth in total - that is, the assets that we attribute to headworks - basically divided by the number of customers we have and, therefore, what we have invested in terms of headworks per customer. Those charges are what we levy against new developments in terms of headworks charges.

[10.00 am]

In terms of the detail for the bid for Dalyellup, it was based on what we felt was necessary to run the business. It was staged over a period and one of the clear messages from my board was that it was not to be subsidised by our existing operations. That was the basis upon which we made our submissions.

Mr A.J. DEAN: What happened with your tender and submission?

Mr Oddy: The way the process worked -

Mr A.J. DEAN: You lost it?

Mr Oddy: Yes.

Mr A.J. DEAN: Were you more expensive than the Water Corporation?

Mr Oddy: My understanding of it - and we have never been able to get the detail, and I understand the Office of Water Regulation has never been able to get the detail of it - was that we missed out on the provision of the water supply component on the basis that our proposal was more expensive than that of the Water Corporation. I further understand that one of the reasons for that was that our headworks were actually more expensive than the Water Corporation's headworks for that particular development. Our headworks are normally about 65 per cent of the Water Corporation's nominal headworks charges.

Mr A.J. DEAN: Sixty-five per cent of their standard statewide charge?

Mr Oddy: Yes. In this instance they applied a specific charge for development headworks for water in relation to this development, which was different from their normal charge. I understand it was less than ours.

Mr A.J. DEAN: Was it in order for them to do that?

Mr Oddy: I do not know how their process worked. I can only assume that it was done on a similar basis to ours, that it was not to be subsidised because that was a key component of the requirements of the licence, that these things were not to be cross-subsidised. However, some insight was gained on what may have happened from their submission to the Water Services Coordination Act review, when they wrote themselves that they had reduced their charges for that development and therefore missed out on some income because of the reduction of their normal headworks charges. I appended that information to what I sent the committee. That was in their own words, not ours. I do not have any factual evidence to produce, but our understanding is that their headworks charges for water supply were reduced from their normal level to a level below ours, and that that was part of the reason that they won Dalyellup. I would also imagine that another factor was the fact that they could provide the total service, that is water supply and waste water, whereas we were unable to provide the waste water side. So the developer would have got a whole package rather than a bit here and a bit there.

Mr M.G. HOUSE: Nobody ever gave you an explanation, from what you are saying. Did you ever actively seek that information, or did you not think the contest was worth the worry?

Mr Oddy: No. We actually went to the Office of Water Regulation to ensure that the process was fair and reasonable. My understanding of that was that they were never able to get the information in terms of the financial calculations that they needed to make that assessment.

Mr M.G. HOUSE: The Office of Water Regulation was not able to?

Mr Oddy: No.

Mr A.J. DEAN: They could not confirm the Water Corporation's calculations?

Mr Oddy: No.

Mr A.J. DEAN: Did they look at yours and audit those?

Mr Oddy: We made them available. In accordance with our legislation, everything we do is an open book anyway. We do not have this corporatised capacity to declare something as commercial-in-confidence; ours is an open book, as is required by legislation, and as you are aware we do have this serious issue about our legislation.

Mr M.G. HOUSE: It is a bit of an unfair contest, if they can provide figures that are difficult to substantiate and you provide figures that have to be entirely accurate.

Mr Oddy: We felt it was unfair in a number of directions - Dalyellup. We were fighting with one hand tied behind our back, basically, because we could not provide the entire service. We could only supply the water supply.

Mr M.G. HOUSE: Is it possible for you to ever expand your operation to deal with waste water?

Mr Oddy: We are pursuing, and have done for seven years, changes to our legislation, but it is very difficult to get it through. We get a lot of support for the idea, but getting it to the line is very difficult.

Mr M.G. HOUSE: If the legislation were changed, you have the expertise and ability, you think, to pursue that?

Mr Oddy: Yes, we believe so.

Mr J.L. BRADSHAW: You indicated that you tendered on the basis of taking the average per client and putting that into Dalyellup; is that correct?

Mr Oddy: That is right.

Mr J.L. BRADSHAW: If you had looked at it just as a new subdivision, forgetting about setting up the infrastructure for that, would it have come out at a different figure?

Mr Oddy: It is not our belief that it would have, no. The figures that we used for our existing headworks are based on the construction of the next treatment facility, and that is what Dalyellup was.

Mr J.L. BRADSHAW: I know you said that, but I got a bit confused later on when you said you looked at your current assets and the value of your assets, and you divided that among the number of clients.

Mr Oddy: That is really as a check. We take the next one as the basis for our headworks charges, because that is what we are applying to the next subdivision, but as a check we run it over our entire business. The figures come out very similar, because they are based on the current replacement cost.

Mr J.L. BRADSHAW: Would you say that the Water Corporation may have done it below cost?

Mr Oddy: I have no evidence to suggest that at all. They may well have done a specific calculation for that specific job. I have got no knowledge one way or another, nor has anybody else to my knowledge.

Mr M.G. HOUSE: Is there anything you would like to tell us that would help our understanding of how you might work or might want to work in the future?

Mr Oddy: Not really. I think our organisation is, as I said, an open book. It stands up to scrutiny fairly well, I think. We are audited annually, as we are required to be, but we are also audited for a number of other things. At last count we go through seven or eight audits - occupational health and safety, our operational audit is carried out on a two-yearly basis through the Office of Water Regulation, and that will now be through the Economic Regulation Authority. The business stands up to scrutiny. It has no debt and its forecast for the future is that we will require no borrowings to run our business. From our perspective the headworks system that we have, if this is what we are discussing, works quite well. We are quite satisfied with the system that we have in place to provide the infrastructure that is necessary for continuing development in the future. I did read the terms of reference, and they contained something about it being generally considered that with increased density infrastructure costs should be reduced. That might be okay where you are talking about roads, footpaths and things like that, but in terms of some of the other infrastructure it is not necessarily right. It might be telecommunications, water supply or waste water. Where there is infill particularly happening, you might have to dig up existing developments and roads and things like that to provide that extra infrastructure. You might have to remove existing water mains for kilometres to get the required amount of water to the new development. As an observation, that is not necessarily accurate.

Mr M.G. HOUSE: The terms of reference were written at the start of the inquiry. Since then we have taken evidence in Sydney, which I think has the greatest amount of infill in Australia - or a government policy that is pushing in that direction - and that is one of the things we picked up quite clearly.

Mr A.J. DEAN: Are your headworks charges for infill the same as for greenfields?

Mr Oddy: Basically, yes. In both cases we do discount some of the charge on the basis of the size of the lot development. If it is under 600 square metres, we only charge 87 per cent of the standard headworks fee. In some instances the supply to redevelop is very difficult. When going through the terms of reference I thought that was possibly, in terms of some of the infrastructure, an unfair generalisation. There are some difficulties associated with that.

Mr M.G. HOUSE: Your comments with regard to that are noted.

Mr A.J. DEAN: If you were given the opportunity to tender in an open competition with the Water Corporation again, would you?

Mr Oddy: I think unless our legislation was changed and we could provide the full spectrum of services, and unless there was some form of accountable process whereby somebody in authority checked the process, we would be reluctant. It was of concern to us that the process relating to Dalyellup was not open to scrutiny; it was a decision made by the developer, not by the regulator.

Mr A.J. DEAN: Say that again.

Mr Oddy: The final decision for who got to supply the water to Dalyellup was actually made by the developer, not by the regulator.

Mr M.G. HOUSE: You have referred to the legislation a number of times. I think you intimated there were difficulties changing that legislation. Are you talking about political or legal difficulties?

Mr Oddy: The process of actually getting it to Parliament and getting the support needed to get it to Parliament has proved to be very difficult. It is supported by our minister and by others, but its priority is not considered that high.

Mr M.G. HOUSE: Correct me if I am wrong, but there is some agreement about changing that legislation, although no-one has given it a priority ranking to get it through the process. Is that a fair description?

Mr A.J. DEAN: Yes.

Mr Oddy: That is a fair description. It is supported by both sides of politics. In fact, it was within months of being listed prior to the change of Government, but it just gets in a queue, unfortunately.

Mr M.G. HOUSE: I think when the Government changed we had 107 Bills down there for drafting; yours might have been one of those.

Mr Oddy: It would have been.

Mr M.G. HOUSE: Is there anything else you would like to tell us?

Mr Oddy: No, I do not think so.

Mr A.J. DEAN: I want to go back a step. The Office of Water Regulation issued the requirement for a tender.

Mr Oddy: No, they did not in the finish.

Mr A.J. DEAN: Who did?

Mr Oddy: The developer asked for submissions for the provision of water supply to Dalzell.

Mr A.J. DEAN: Knowing full well that it was outside your area. How did you get around that?

Mr Oddy: That would not have been a problem. We had an indication from the regulator that they would extend their area if we were the successful applicant.

Mr A.J. DEAN: They have the power to just draw a line?

Mr Oddy: Yes, they do.

Mr A.J. DEAN: So the developers, Homeswest and Satterley, said they wanted a tender on this?

Mr Oddy: Yes.

Mr A.J. DEAN: It went out to tender and they chose the winner?

Mr Oddy: That is right.

Mr M.G. HOUSE: Bearing in mind you are only talking about water supply, not waste water, and that could have been an issue.

Mr Oddy: Yes. We did put in a half-hearted submission with regard to waste water, but it was subject to us being given access to the Water Corporation's treatment facilities. That was not a position that we had negotiated with any finality. We put a submission together, and it is contained in the information that has been provided to the committee, but it was not going to be of much benefit to anybody because it was subject to a variety of things. We did not have a great deal of hope in that respect. When we made the submission we had a degree of confidence with regard to our water supply submission, but a lot of that was based around the fact that our normal headworks fees were something in the vicinity of 30 per cent to 35 per cent lower than the Water Corporation's, but that was not to be.

[10.15 am]

Mr M.J. HOUSE: One of the things we are trying to establish is just how organisations like the Water Corporation and Western Power arrive at the figures they charge. We have been discovering that that is not very easy, but we are trying to do so. The report of this committee will be tabled

within the next couple of months, and you will have an opportunity, like everyone else, to see whether we have been successful in identifying that. Do you wish to add anything?

Mr Oddy: No.

Mr M.J. HOUSE: Thank you for coming in today; we appreciate it.

Mr Oddy: Thank you for the opportunity.

Sitting suspended from 10.15 to 10.26 am