

**SUBCOMMITTEE OF THE STANDING COMMITTEE ON  
PUBLIC ADMINISTRATION AND FINANCE**

**WATER SERVICES INQUIRY**

**TRANSCRIPT OF EVIDENCE TAKEN  
AT PERTH  
MONDAY, 23 AUGUST 2004**

**Members**

**Hon Barry House (Convenor)  
Hon John Fischer  
Hon Dee Margetts  
Hon Norman Moore (Participating Member)  
Hon Ken Travers**

**Committee met at 1.39 pm**

**PEARSON, MR DES**  
**Auditor General, Office of the Auditor General,**  
**4/2 Havelock Street,**  
**West Perth, examined:**

**CLARKE, MR GLEN**  
**Executive Director, Compliance and Information Service, Office of the Auditor General,**  
**4/2 Havelock Street,**  
**West Perth, examined:**

**Hon BARRY HOUSE:** On behalf of the subcommittee I welcome you to the hearing. You will have signed a document entitled "Information for Witnesses". Have you read and understood that document?

**The Witnesses:** Yes.

**Hon BARRY HOUSE:** These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. To assist the subcommittee and Hansard, please quote the full title of any document you refer to during the course of this hearing for the record, and please be aware of the microphones and speak into them. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session. If the subcommittee grants your request, any public and media in attendance will be excluded from the hearing. Please note that until such time as the transcript of your public evidence is finalised, it should not be made public. I advise you that premature publication or disclosure of public evidence may constitute a contempt of Parliament and may mean that the material published or disclosed is not subject to parliamentary privilege.

You are aware that this is a subcommittee of the Standing Committee on Public Administration and Finance. We have been given a referral to examine water services in Western Australia, on which we have undertaken some hearings and are putting together a report to the Parliament. We are particularly interested in your report No 7, entitled "Second Public Sector Performance Report 2003", on the management of water resources in Western Australia. This is an opportune time to ask you a few questions about your findings and recommendations. Would you like to make an opening statement to the committee?

**Mr Pearson:** This audit arose out of our topic selection process through which we try to get coverage across economic, social and environmental issues. Clearly, the management of water resources is a significant environmental issue for Western Australia. It was in that context that we undertook this review of how that resource is monitored and controlled.

**Hon BARRY HOUSE:** I have some general questions, the first of which you have already touched on. Will you please explain why you carried out your inquiry into the management of water resources in Western Australia and what resources were used to prepare the report; for example, approximately how many staff or staff hours were needed to complete it?

**Mr Pearson:** This was one of our relatively smaller examinations. In total, it cost about \$60 000 fully costed and about half a full-time equivalent. It involved two staff working on the project, supplemented by support from other areas of the office.

**Hon BARRY HOUSE:** Were there any aspects of the water audit that the audit team would have liked to have had an opportunity to take a more detailed look at but were unable to due to time constraints or other priorities?

**Mr Pearson:** No, the size of the audit was very much in accordance with our design and approach. With regard to the issue that the role of the auditor is more of a watchdog than a bloodhound, we scoped the audit, in a sense, to review the extent of monitoring and compliance in place. As the report finally indicated, we found that the level of monitoring and compliance in place was basically less than satisfactory, so it was problematic for the audit to go much further than it did. We were satisfied with the extent of the audit. The nature of the findings was sufficient to report the situation and to provide a reliable basis for the relevant agencies to reconcile with and move forward.

**Hon BARRY HOUSE:** Now that you have reported to the Parliament, what powers or obligations do you have to follow up to ensure that the Water and Rivers Commission or the Department of Environment acts upon your findings and recommendations?

**Mr Pearson:** Because the audit is an independent function, it has no coercive or executive power. Our only sanction is to report publicly our conclusion on the quality of the administration, and we have done that. However, the reality is that the Water and Rivers Commission, which is the primary agency that we audited, was very cooperative in the course of the audit, in consequence of our approach, which is to raise matters of significance at the earliest opportunity during the course of the audit. What we do then, on grounds of procedural fairness prior to tabling a report to the Parliament, is that we consult with the agency to ensure there are no errors of context or facts about which we reach conclusions. The agency was reasonably well informed of the nature of the report. Its response to the tabling of the report was relatively prompt in announcing action.

**Hon BARRY HOUSE:** The next question has been partly covered. Conversely, what obligation does the Water and Rivers Commission have to act upon, or respond to, these findings and recommendations, and does that need to be made public in the way that your report is made public?

**Mr Pearson:** No. The short answer is that there is not an explicit obligation. There is the overriding obligation under the Financial Administration and Audit Act for the accountable officer and the authority to operate efficiently and effectively, and the basic requirement to obey the law. However, the extent to which the agencies address the issues that we raise is very much within their discretion, and they are accountable through the minister to the Parliament.

**Hon BARRY HOUSE:** I turn now to the general findings of the report, which is probably what interests this subcommittee more than any others. We obviously have the report for reference, but would you like to give us a thumbnail sketch of the findings and how you reached them?

**Mr Clarke:** Probably the key issue that we identified through the examination was the uncertainty that the commission has when it comes to determining the exact water resource that it has. That concern was backed up by our finding that the licensing processes in the commission for allocating water resources were not up to the level that we anticipated. Obviously, licensing is very much affected by a good knowledge of the State's water resource, because if we do not have a good knowledge of the water resource, when it comes to allocating water the licensing process can be severely affected. The process was that we had a team of two people. Primarily, the team leader, who is an environmental economist, worked at the agency for approximately three months. The process also involved one regional trip. It also involved requesting information about certain key aspects of the agreed scope, getting information from the commission's databases, filing systems etc, and comparing in essence what was happening to what should have been happening.

**Hon DEE MARGETTS:** Who was the environmental economist?

**Mr Clarke:** Colin Campbell.

**Mr Pearson:** He is a staff member of the office; he is not an engaged consultant.

**Hon KEN TRAVERS:** You did not mention it, but in some of your other reports you revisit the matter. Is that something you are considering for this agency or are you reasonably satisfied from the response that the matters have now been dealt with?

**Mr Pearson:** That is a convention we have on the significant reports; namely, that we revisit in about two to three years and endeavour to provide Parliament with an acquittal of what has happened with the recommendations we have made. This report is one that I would put in that category. We propose to go back some time later in 2005 or early 2006.

**Hon KEN TRAVERS:** Is that sort of report-back often based on how you think an agency has responded? Would you bring it forward if you did not think it had responded?

**Mr Pearson:** That is a difficult issue. In the extreme, I would bring it forward. However, the normal thing is that an audit is independent and impartial. We make our recommendations as we think they are required, and it is up to the Parliament and the community to take a view on the timing. We try to keep it as objective as we can. We try to keep the reviews relatively focused and brief, and rather than expand on them and go further we try to acquit against our findings and recommendations and give a factual acquittal. As an auditor we seek to be informed and independent and try not to be an advocate for our findings.

**Hon KEN TRAVERS:** One of the difficult things is that findings are often value judgments, are they not?

**Mr Pearson:** Yes. We endeavour to establish the criteria up-front as firm as we can. In the ideal situation the agency would say these are the criteria against which we are managing, and we would use these. It is probably more common for an agency to be intuitively managing. When we begin the audit, the first part of the process is to sort out what are the reasonable and reliable criteria and then work against those.

**Mr Clarke:** One of the things that we do with compliance examinations, though, is to try, whenever possible, to rely on the agency's internal policies. That was the case in this instance. In effect the agency's internal policies formed the criteria.

**Hon KEN TRAVERS:** In one of your earlier comments you suggested that the Water and Rivers Commission was fairly cooperative when you undertook the audit. Is it fair to say that it was aware of the problems it was facing and was almost glad that you arrived to help put on some pressure to get the additional resources?

[1.50 pm]

**Mr Pearson:** That is a trend that I have been somewhat alert to in recent times. It is a phase in which there has been ongoing budget restraint for many years. This one stood out particularly as a case in which I think the agency - I should not speak for it, but I will - felt it should be doing more but did not know how and saw this as an opportunity to at least put the issues on the record.

**Hon NORMAN MOORE:** When I read the report I thought it is the sort of thing that if I were the CEO of the agency I would send straight to Treasury and it would send me a vast amount of money, because when the Auditor General says an agency is not getting enough money, that is a pretty good prod to Treasury to give it some more. You state in your report -

WRC acknowledge that management of the State's water resources has deteriorated in the past five to six years ". . . *despite the considerable efforts and hard work of staff located in regional and central locations*".

Is it just a funding issue? Do you accept that the considerable efforts of the staff have been adequate to meet the needs? Putting the funding issues to one side, is the agency operating efficiently?

**Mr Pearson:** That is a difficult one to answer, because we were really looking at the management of the program rather than the overall efficiency. There is always tension between the availability of resources and the task requested. To my mind, this was clearly a situation in which it was out of parameters and a circuit-breaker was needed. To relate it to what you were saying, this is the sort of report that a CEO could well use to advance his case to Treasury. From an audit perspective, we are very careful to avoid being in that position. However, there are occasions on which additional resources appear to be an integral part of the solution.

**Hon NORMAN MOORE:** Is there a problem with the Water and Rivers Commission as it was - I think it is in a transition process now - in determining what its role is in the scheme of things, bearing in mind that it is a relatively new creature that is based upon a new approach to water management?

**Mr Pearson:** It is still in the transition process, because the legislative changes have not yet gone through to bring it within the Department of Environment, so it is still operating as the Water and Rivers Commission under the departmental umbrella, but I probably see it more as an unintended consequence of the revised approach to the water regime, by which the Water Corporation was formed to be the corporatised entity to deliver the services, and the Water and Rivers Commission was established as a quasi regulator, and that has created an imbalance that had not been worked through before we came in and did the audit. They are large and complex organisations and practices, and it is often difficult to get it right in one operation.

**Hon DEE MARGETTS:** Most people in the community would assume that the Water and Rivers Commission, which has been split off, would have a water protection role separate from its revenue stream. Do you have any proposed models of how it might obtain a revenue stream in the future?

**Mr Pearson:** No. I see that as being very much a role for the Government of the day, because there is a view that if an agency is a regulator, it should definitely be funded by the public purse so that it can regulate without fear or favour. Conversely, if a revenue stream is tied to regulation, there can be a perception, at least, of user paying and directing. It is a difficult question.

**Hon DEE MARGETTS:** I understand that, but the current licence fees do not cover the cost of monitoring, and apparently nothing covers the cost of non-proclaimed areas, although legally the Water and Rivers Commission is not prevented from acting in non-proclaimed areas. When it was the Water Authority, it had a role in helping to protect catchments. It also had revenue. Now that it is the Water and Rivers Commission, I presume the community expects it to monitor and protect catchments; yet, it does not have the funding to, for instance, purchase land in sensitive areas to protect its use. Surely if the Water and Rivers Commission, or someone, is collecting licence fees, and if there are large quantities of water, that should at least provide some indication that that might affect the necessity for monitoring, assessing and managing.

**Mr Pearson:** Yes, but essentially from an audit perspective we looked at the oversight and the regulation and found it wanting. The responsibility to explore those options rests with the Executive Government, and I am hopeful that that is part of the process that is happening now. Auditors will make more generic recommendations about the way ahead but not be specific, because there are just so many issues and options, and that is the role of the Executive Government.

**Hon BARRY HOUSE:** The second dot point under "Key Findings" states -

WRC has not determined allocation limits for a significant number of water resources. Where limits have been determined, they have not always been entered into WRC's primary water management database, though licences to take water from these areas have nevertheless been issued.

The following sentence is the one I want to concentrate on -

WRC relies on the local knowledge of their regional officers to manage licence allocations in these situations.

Did you examine any other models by which the Water and Rivers Commission could get better advice on those sorts of things? In many instances regional officers are fresh-faced city-based people who have just completed an environmental science degree at Murdoch University and are working in country areas but have no local knowledge whatsoever. There have been tried and proved groups, like the Warren-Lefroy users group, for example, which has self-managed a small catchment for a long time, but now perhaps the advice which the Water and Rivers Commission is using and on which it is basing its decisions is not very relevant. Is that an area that you have bought into?

**Mr Clarke:** Not per se, although I think your comment supports the concern that we were identifying in that statement. As far as I am aware, there are certainly instances in which there are quite senior and experienced people in the regional areas. However, as you say, there are also some inexperienced people. The fact that they do not have the information that they need when making licence allocation decisions is, as you suggest, a major concern.

**Mr Pearson:** I saw that as a core and fundamental finding about a very unsatisfactory situation.

**Hon BARRY HOUSE:** I know anecdotally that there is a major concern in the community that perhaps the advice on which some decisions are being based is not very informed advice.

**Hon JOHN FISCHER:** I must admit that I have not had a chance to read this report as thoroughly as I should, but having had a look at it now I will certainly take some time out to do so, because there is some pretty horrific information in here. You state in your report -

Investment in the State's water investigations program has dropped from around \$2 million a year in 1990 to around \$300 000 in 2002.

Have you done any evaluation of how much more money the Government should put into this?

**Mr Pearson:** No. That is very much an area about which it is the Department of Treasury and Finance's role to advise the Government of the day. Basically this report is the result of our reviewing the situation against standards and the agency's own policies and statements about what it felt it should be doing, and reporting the difference between the two. Unfortunately it is a pretty sorry story all the way through, because apart from the finding that you are talking about, there was also the quality of the advice and the lack of integrity of the database, and that flowed through at the other end to the rate at which decisions were being overturned on appeal, so that added up to a system that was not reliable.

**Hon JOHN FISCHER:** You state also -

The WRC has acknowledged that it lacks sufficient staff with appropriate hydrographic skills. This problem is most evident in the Kimberley and Carnarvon regions, which have no permanent hydrographic staff.

That is a concern, because those are two areas in particular in which big changes have been implemented with the use of subartesian bore water in the Carnarvon region and certainly with water usage in general in the Kimberley.

**Mr Pearson:** Yes.

[2.00 pm]

**Hon DEE MARGETTS:** In answer to a question I asked in Parliament - this needs breaking down much further - I was given an answer that there had been something like 626 gegalitres of new major water allocations since the mid 1990s. That links to something that you said about what you thought was the process of giving allocations. I am concerned that a number of people in the

allocations branch of the Water and Rivers Commission see themselves as the agents of economic development via water. Was that your finding as well? In the case of some of the new dry land irrigation areas around the Gingin ground water area, distressed landowners contacted me and said that the water had been allocated, with 95 per cent of the subregion's allocation being given to one irrigator, with no real consultation with surrounding landowners about the potential impact on the land care waterlogging of the area - it slopes down to irrigation, so it is inevitable that there will be some impact - and no requirement initially for any monitoring of bores. I do not know that that is isolated. Was that your finding as well?

**Mr Clarke:** I think that sort of circumstance might have occurred under the old licensing system. There was legislative change, which you are probably familiar with, that made the licensing process more community consultative. I think the problem may be, though, that if a licence was issued under such arrangement in the past, I suspect that under the renewal arrangements - but I am not really positive of this - there may not be a reflection back to the community under the new arrangements.

**Mr Pearson:** Our audit was focused on the integrity of the administrative systems overlooking it. We would not routinely drill down to a particular case such as you outlined, given the lack of cohesion in the overall system.

**Hon DEE MARGETTS:** In that particular instance - I am raising it because I think it is indicative that those things happen on a not irregular basis - widespread paddock clearing occurred as a result of that. Therefore, there were clearing and potential land care issues. Damage was done and the existing legislation could barely cope. Then the landowners around there tried the Water and Rivers Commission. It said that its role was only to allocate water. They tried the office of soil and land conservation, which said, "It's cleared now. What can we do?" Everyone they went to said that, no, it was not their job. In the end, in terms of those major new dry land irrigation set-ups here, there and everywhere, no-one seemed to be taking any overall management. It must be borne in mind that the Gingin ground water area is not only an important source for industry but also one of those competitive resources that is a source for the metropolitan area.

**Mr Clarke:** If those land practices were affecting the water levels, that is something that the Water and Rivers Commission should have been monitoring. That brings us back to an issue we raised about the inadequacy in parts of the network for monitoring water resources. When it comes to renewal of licences we would expect the WRC to have information coming out of the networks that shows whether there has been any significant effect on the sustainability levels.

**Hon DEE MARGETTS:** Is it your view that, similar to a mining lease or tenement, the environmental conditions of, say, a licence for a major allocation to an individual grower should be publicly available?

**Mr Clarke:** I certainly had not considered that.

**Mr Pearson:** I have not considered that specifically, but my overriding approach is yes. Consistent with, say, procurement in the public sector, there might be times when those conditions might need to be confidential, such as during a tender process during the evaluation phase. However, once the decision is made, the normal expectations is that things should be open and available for public scrutiny.

**Mr Clarke:** And thereafter the conditions of licence should be monitored by the department. That is another thing that we found was not happening to any great extent.

**Hon DEE MARGETTS:** So once the allocation has been made, it is up to other people to make a complaint, if they can.

**Mr Clarke:** Yes.

**Hon KEN TRAVERS:** With regard to the planning and the lack of science, I guess the last time that I had a fairly heavy involvement in this and talked to the Water and Rivers Commission people, they talked a lot about risk management. That does not seem to be touched on much in the report. Is that still a process? Is that something that you now consider is not an appropriate course of action? I think at the time three or four aquifers were near full allocation, and a lot of resources went into those. With others, the Water and Rivers Commission had done a desktop study and worked out that they were well below that allocation level, so it did not put in many resources. A lot of the comments in your report stated that openly, but it was doing it on a risk management approach. Is that still an appropriate model?

**Mr Pearson:** I will let Glen Clarke deal with the specifics, but risk management, in my mind, is always an appropriate model. However, one cannot pick and choose risk management in this area, and another approach in that. It must be a cohesive approach. If your risk management system is working and you are taking risks where there are clear indications of availability, and you are tightly managing in other areas, where there are clear indications of tightness in the resource, and appropriate responses are being made to the risks identified and the feedback you are getting, that would be acceptable. However, in this case, I was not given comfort that a cohesive and robust risk management approach was operating.

**Hon KEN TRAVERS:** I accept that. There does not seem to be much discussion in the report. It refers to certain things - I cannot find them now. However, you list the number of aquifers that have had no work done on them. Surely that would still be part of a risk management approach, although I take your point about getting to that higher point.

**Mr Pearson:** Perhaps it has not come through in the report but my approach when preparing this report was that there was so much dysfunction and disjointedness that I could not form that sort of view. As an auditor one has a range of things to consider: from the very much unsatisfactory end, your primary role is probably to get the issue on the agenda and being addressed. That is very much the mode I am in with this one. In other situations in which the system is pretty robust and working with a few deficiencies, we can be somewhat specific about what needs to be done to make it better. This is one that overall was pretty unsatisfactory, and there were some gaping resource and administrative issues that were beyond the audit remit to address.

**Hon KEN TRAVERS:** I accept the comments about the overall structure of the process and that you might not have been able to address the detail concerning the question I am about to ask. However, did you identify, as part of the audit, how many aquifers you thought were at risk or under pressure? Were you able to get to that level of detail?

**Mr Clarke:** We did not identify any aquifers that were under pressure. We just reported what aquifers and water resources the department said were under pressure or were overallocated. However, we have statistics in the report that refer to some areas that were being overallocated.

**Mr Pearson:** To illustrate where there is a degree of integrity or the basis of a system - there is a basis with which to work - one of our findings was that the licensed water use exceeded the sustainable level in parts of 13 of the 44 ground water management areas. To me, it was too disjointed for us to even be able to extrapolate or develop. Thirteen out of 44 means almost one in four were in error, but then at the next level there are 900 subareas. It was beyond our capacity to make sense out of that.

**Hon KEN TRAVERS:** You mention a range of factors about the growth in demand. The other factor is that over the past five or six years the commission has constantly had to reassess the sustainable level. Certainly 13 out of 44 was not the case a couple of years ago. Is that partly because they have had to allocate down? Is it not just about resources in the department, but also about the legislation; that is, it has no way of paring back those overallocations when they start to occur because of a completely unrelated event, such as the weather.

[2.10 pm]

**Mr Pearson:** Yes.

**Hon KEN TRAVERS:** Is there a legislative issue there concerning the licensing regime that the commission must deal with?

**Mr Pearson:** I would almost take the cop-out option there again, because from an audit perspective there was not sufficient integrity in the system for us to be able to reliably project or form an opinion on. Therefore, we stopped this audit at the point of putting these issues on the table, so that they could begin to be addressed. The range of issues that we have found from our audit point to both legislative and administrative resources, and a number of interventions are required.

**Hon NORMAN MOORE:** The Water and Rivers Commission came out of the old Water Authority, which I presume used to do the job that the Water and Rivers Commission was given to do when it was created. Did we have more knowledge in the areas in which you have been critical of the Water and Rivers Commission in the days of the Water Authority than we have now or can the two not be compared? There was obviously a regime of management, if you like, under the Water Authority. Part of that role was given to the Water and Rivers Commission. Did things go downhill from there or has the Water and Rivers Commission improved things compared with the previous regime?

**Mr Pearson:** We do not have a baseline I am sorry to -

**Mr Clarke:** The only baseline we have is the number of monitoring bores that were in place some years ago. We have statistics in the report that show that the number of those bores has declined in the past few years. That may correlate to the split between the Water Authority and the Water and Rivers Commission, but I am not positive about that.

**Hon NORMAN MOORE:** It seems to me that if we are to judge the Water and Rivers Commission's performance, we need to judge it on the basis of what was there before it was established. The creation of that agency has probably consumed a fair amount of money that was used by the Water Authority for some of these tasks. Obviously running a new agency with all the trappings that go with that may have consumed resources. You talk about a 33 per cent decline in funding in real terms for core water resource management operations; was that money consumed in the administration of the agency?

**Mr Clarke:** It was not something we set out to determine.

**Hon NORMAN MOORE:** In 1998 was about when it started, I think, if my memory serves me correctly. There has been a 33 per cent decline in that period.

**Hon DEE MARGETTS:** It was 1996

**Hon NORMAN MOORE:** Was it?

**Mr Clarke:** Our report states that the number of surface water gauging stations in the monitoring network has dropped from 353 to 257 - a 27 per cent decline since the formation of the Water and Rivers Commission in 1996.

**Mr Pearson:** Unfortunately this takes us into the speculation area. We have done an audit in terms of whether the system is working, and stopped at that point. I am speculating that one of the things that occurs to me is that it could be that the feedback loop in terms of needs and the resourcing of them might have been tighter in the Water Authority days, where there may have been a closer cause and effect. Whereas with the separation of the Water and Rivers Commission from the Water Corporation, the commission must go through Treasury and Finance for funding, and the Water Corporation deals was Treasury and Finance in another area in terms of dividend policy. I stress that I am speculating on that. It could be an area in which the nexus has been broken.

**Hon BARRY HOUSE:** The Water and Rivers Commission is responsible for water licensing in Western Australia. However, several local shire councils have entered into this area by insisting on development applications or surface dams in their areas. It seems to me that they have done this outside their remit in a sense and without any of the technical knowledge that is within the Water and Rivers Commission. There seems to be a duplication of the process. Do you have a view on that situation?

**Mr Pearson:** I do not have any knowledge there. We do not audit local governments. I am not aware of that particular issue.

**Hon DEE MARGETTS:** In the budget documents for the Water and Rivers Commission, around half of the outcomes are based on administering compliance of national competition policy. That cuts the budget of actual amount that is left for water management and water conservation policy issues by about a half. I wonder whether that should be one of the major roles of the Water and Rivers Commission.

**Mr Pearson:** I do not see that as an audit issue. That is one of the difficulties of answering a number of your questions about this issue. We have done an audit of how the monitoring and oversight is working, and we have reported that it is not. The committee will have spoken to the Water and Rivers Commission and the Water Corporation. It might be an issue to talk about in terms of the machinery of government for consideration of how it is being managed. The other, in terms of resourcing, would be considered by Treasury and Finance.

**Hon DEE MARGETTS:** It is true to say that community expectation in relation to water quality, salinity and water quantity issues is probably a matter that could be sharpened in recent years. When you do an audit do you keep one weather eye out for community expectation in relation to those departments?

**Mr Pearson:** I would answer that in a sense that it was an awareness of those views and the importance of water in the Western Australian situation that led to us looking at this dimension. I suppose in hindsight, the issue is that this is the dimension we chose to look at and report on. We saw it as a threshold dimension that there were deficiencies in the way it was operating, and we stopped at that point.

**Hon BARRY HOUSE:** I have one other point. In the section of your executive summary in relation to what is being done, you state that the Water and Rivers Commission advise that many of the problems it faces are funding related and that solutions are being investigated. The first example of this solution is that companies seeking major water allocations be asked to fund investigation in areas where hydrogeological knowledge is inadequate.

I know of an instance in which a small individual sole trader - a dairy farmer - has requested a water licence. He has been asked to fund the bore, which will cost him about \$20 000. Even if at the end of it, there is the almost certain knowledge that there is plenty of water there, because all other indicators point to plenty of water being in the Yarragadee, he must run the gauntlet of applying for a licence, which will be for only two years. That is very poor tenure or security for an individual, let alone a company to buy into. Does that concern you? It is probably outside your brief to a certain extent. However, it seems to me that you will not get the result you want - the only result you will get is to stop anything happening.

[2.20 pm]

**Mr Pearson:** I see it as outside the brief except when it comes to asking individuals to fund things. It comes back to the difficult balance between equity and transparency in the provision of public services to the community. It is an increasingly complex world. However, in the instance to which you referred, which is a big impost on the person, asking a person to fund something is an issue that concerns me from the accountability perspective. At the end of the day that is where Governments need to revisit their ability to deliver and the context in which they do deliver. If the system ends

up so far out of balance that only the big people can afford it, that will have repercussions for stability and equity. If we look back over 20 to 30 years we have probably seen an emergence of universal user pays, but I am seeing increasing instances of one-off user pays that raise with me two elements: one is the ability to pay on equity. The other is whether - in the case of asking someone to do it, I suppose the cost is a given - when the Government is providing a service and recouping the cost, it is recouping the total cost. If it is not, that is another potential area for inequity.

**Hon BARRY HOUSE:** The Government is effectively providing no service in this instance, except claiming the charge for the public resource.

**Mr Pearson:** That is when it comes back to a government or parliamentary issue. It might be better to provide no service than a service to only those who can afford it. That can stimulate a lot of ill feeling.

**Hon BARRY HOUSE:** Yes; it does.

**Hon DEE MARGETTS:** Some of the very largest users of water resources, as I mentioned, that compete with the public water supply are the ones that pay the least. From an audit point of view that would be an inefficient way of operating. I am thinking of state agreement Acts. Some of them obtain by agreement very substantial amounts of water for which they do not pay.

**Mr Pearson:** This is the fine line we come across every day. If it is negotiated in a state agreement, that is a policy that audit is not entitled to challenge, except in very extreme cases. Conversely, if there is no policy we can query that and draw to attention the absence of a policy.

**Hon DEE MARGETTS:** I might challenge you a bit on that. There is no actual stated policy for state agreement Acts so you cannot point to it and say, "We can't act against government policy".

**Mr Pearson:** No; if the provision is in the agreement that is appended to the Act of Parliament, I would take that as an executive decision of the Government of the day. Conversely, when it reaches extreme situations, as it did with a state agreement Act for iron ore, we at least drew to attention that the agreement was negotiated 40-odd years ago and there had been a number of variations and amendments at the behest of the company but we could not see evidence that the Government had raised the issue of continued justification for a subsidised royalty. That is an area in which we queried an anomaly. However, I made the judgment that it was a pretty extreme situation and that, after close to 40 years, perhaps a policy decision warranted revisiting. The indications are that the system is interpreted in a similar way.

**Hon NORMAN MOORE:** I guess we cannot ask questions about that issue; we can save it for another time. I do not see it as a subsidised royalty at all. It was negotiated at the time and that was the royalty rate. The fact that it has risen since does not mean that it is subsidising anything.

**Mr Pearson:** Right. Equally, from my perspective, the department was unable to give me a rationale, so as a result I have queried it. The auditor only has the right to raise an issue. It is up to the system to work out whether to respond.

**Hon JOHN FISCHER:** Under the heading in the executive summary of "What did we do?" one of the dot points is "Water resource investigation and assessment". Have you since looked at the desalination costs in any way at all?

**Mr Pearson:** No.

**Hon JOHN FISCHER:** So no comparison has been made there?

**Mr Pearson:** No

**Hon DEE MARGETTS:** Given that supposedly licences for about 626 gigalitres of new allocation have been issued since the mid 1990s, was that at any stage part of your investigation? In other words, what allocations have been made in the past decade or so, and have you done any qualitative or quantitative assessment of allocations? Probably none of us can work out what is there and what

is the recharge or whatever, but we can theoretically work out what has been given out and to whom and under what circumstances. Was that analysis any part of your study audit?

**Mr Clarke:** No, we did not look at what allocations were given out or to whom.

**Hon DEE MARGETTS:** I do not mean to individuals; I was referring to what purposes.

**Mr Clarke:** No, we did not look at that. It was more a matter of whether the licences that were issued were in accordance with the process that should have been followed at the time.

**Hon BARRY HOUSE:** Is there anything you would like to say in conclusion?

**Mr Pearson:** No, but from my perspective, the committee has covered a range of areas. From an audit perspective in response to the report, we appreciate the attention that a committee such as yours is giving it, because it is a complex issue that must be worked through the system. I am very conscious that, as auditors, we identify problems and when there is a problem of this magnitude, it is very difficult for us to provide much of a lead on the solution.

**Hon BARRY HOUSE:** Thank you very much for your time; we appreciate it.

**Committee adjourned at 2.28 pm**