

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO DEVELOPER CONTRIBUTIONS FOR INFRASTRUCTURE COSTS ASSOCIATED WITH LAND DEVELOPMENT

**TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
ON MONDAY, 5 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

[10.05 am]

BULSTRODE, MR ROGER BRAND
Manager, Land Development, Water Corporation,
629 Newcastle St,
Leederville, examined:

GILL, DR JAMES IAN
Chief Executive Officer, Water Corporation,
629 Newcastle St,
Leederville, examined:

MEINCK, MR GARRY CHARLES
General Manager, Planning and Development, Water Corporation,
629 Newcastle St,
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VERSCHUER, MR PETER
Program Manager, Policy, Water Corporation,
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The CHAIRMAN: Welcome to this hearing of the Public Accounts Committee. The committee hearing is a proceeding of the 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 contempt of Parliament. Have you completed the "Details of Witness" form?

The Witnesses: Yes.

The CHAIRMAN: Do you understand the notes attached to it?

The Witnesses: Yes.

The CHAIRMAN: Did you receive and read an "Information for Witness" briefing sheet regarding giving evidence before the parliamentary committee?

The Witnesses: Yes.

The CHAIRMAN: Has the committee received a submission from you?

The Witnesses: Yes.

The CHAIRMAN: Do you wish to propose any amendment to it?

Dr Gill: No.

The CHAIRMAN: Is it your wish that the submission be incorporated as part of the transcript of evidence?

Dr Gill: Yes.

The CHAIRMAN: Before we ask any questions, do you wish to make a statement with regard to your submission?

Dr Gill: No, I think it stands on its own.

The CHAIRMAN: Thank you very much. As you are well aware, the committee is looking at developer contributions, of which water and sewerage is probably one of the most important, if not the most important, factor in the whole development process. Can you give us some background behind your involvement, how you come to the position of some of the costs incurred in subdivisions and what sort of policies you have in relation to urban and country subdivision, because we will ask some questions about both.

Dr Gill: First, I will explain the role of the Urban Development Advisory Committee, which is a key consultative committee with the industry and really what provides the umbrella under which all the consultation and the processes are formulated. Garry Meinck is the Chairman of the Urban Development Advisory Committee, which has on it such members as the Urban Development Institute of Australia, the Western Australian Local Government Association, the Master Builders Association, LandCorp, the Association of Consulting Surveyors, the Association of Consulting Engineers Australia, the Housing Industry Association, the Civil Contractors Federation and, of course, the Water Corporation. It is a major body that was set up in 1994 under Garry's chairmanship. It really looks at all sorts of policies with regard to headworks charges. It has subcommittees looking after specific problems, including an ongoing technical subcommittee, which is chaired by one of the industry members. It is regarded as the best consultative model in Australia. The Water Corporation has taken on a strong customer service ethos. We want to work with industry in what is very much a growing State. This committee has been set up in that spirit. An important thing it does is to overview the methodology for the determination of headworks charges, and it also oversees the triennial review of those charges. The Water Corporation does annual surveys around the customer base of satisfaction with its operation, which come out 90 per cent supportive. That is a very important mechanism overarching the whole process. In terms of the technical aspects of your question, I will ask Roger Bulstrode to speak.

I do apologise, but I was not aware that I was to be invited here until last Thursday. I have a meeting at 11.00 am, so I intend to depart at 10.45 if that is all right.

The CHAIRMAN: We will ask you all the questions we need to before you leave.

Dr Gill: Thank you.

Mr Bulstrode: There is a whole philosophy behind how we seek developer contributions. In terms of the land planning process, there is the state planning strategy running to regional plans, to local district plans in town planning schemes and to the related structure plans, and there are various levels of local structure plans. As part of the state planning strategy, a paper was issued in November 1995 that related to the provision of infrastructure by the utilities - utility infrastructure - and in that was an integrated infrastructure model, which we follow. The key aspect of that model was an overall scheme plan that breaks up the infrastructure into major works, minor works and private works. The major works by definition are simply works that are not site dependent per se. Therefore, if you are talking about the expansion of Perth - the addition of a new dam or the provision of a new treatment plant or local reservoir - Perth can develop in any direction, so to speak, but you blokes will provide the source requirements or the major treatment facility. The minor works are works that are necessary for the applicant. The model requires that the applicant provide those works. The private works are the works that are built on by the landowner or the applicant's land and are entirely their responsibility as they stay on as their asset base, so they are not part of the costing of the model other than for the landowners. The need to get money for the capital works, which are major works that we colloquially call headworks in Western Australia, was a matter of significant debate with the industry back in the 1970s. Over 10 years or so from the late 1970s through to the 1980s, we developed a model that led to the current way we assess developer contributions. It was agreed in 1991 that for the average cost per single residential equivalent, we could seek 40 per cent of that cost from the developer based on a statewide average. That had the advantage of representing some pay for use aspects. It created a uniform approach for the whole of

the State so that development could take place without any differentiation on that. It gave some certainty to developers. It was simple and it also did not engender any big steps, so that they could look at their investment program accordingly.

The CHAIRMAN: Are you saying 40 per cent of actual cost?

Mr Bulstrode: Forty per cent of the statewide average for a single residential equivalent. The unit we use in determining the standard headworks contribution is the average cost of a single residence.

Mr M.G. HOUSE: How do you work that out?

Mr Bulstrode: That is worked out by what we call a modern equivalent asset approach. It is based on the capital cost, and it is set out in the paper -

Mr M.G. HOUSE: Sorry, is that set out in the submission you have made?

Mr Bulstrode: Yes. If you go to the back of it you can see it. In simple terms, we calculate how many single residential equivalents are currently being applied and what the cost of our headworks is from our -

Mr M.G. HOUSE: How do you know that?

Mr Bulstrode: In our asset register we cost our headworks continuously as they come forward, and as part of our whole bookkeeping process we have to know the value of our assets -

Mr M.G. HOUSE: But that is costed on your charging basis though, Roger -

Mr Bulstrode: No, it is the actual cost to provide them.

Mr M.G. HOUSE: But provided on what basis? Sorry, that is the point I am making.

Mr Bulstrode: The actual cost of construction or, if it is works handed over by developers, it is the cost that they charge to provide us with those works.

Mr M.G. HOUSE: Do you ever put that out to tender so you can test it?

Mr Bulstrode: It is all done by tender. We have a complete tendering basis. Very little construction is done by the Water Corporation.

[10.15 am]

Dr Gill: Almost all our capital is contracted out.

Mr M.G. HOUSE: It is tendered out?

Dr Gill: Yes.

The CHAIRMAN: I just want to get to the 40 per cent bit. Is the other 60 per cent borne by the corporation?

Mr Bulstrode: Yes, it is borne by the corporation.

The CHAIRMAN: Are you telling me, for example, that the developer of Ellenbrook would bear only 40 per cent of the costs of providing the infrastructure for those services?

Mr Bulstrode: Yes, for the standard level of service component. That is per our charter. Our approach to developer contributions is that the developer contributions will be equal to the cost of providing the standard level of service plus a factor for any additional level of service that a developer wants. With Ellenbrook, they wanted an additional level of service. Basically, for a normal development where they want 20 litres per minute at 15 metres as their level of service, they pay standard headworks charges.

The CHAIRMAN: That is for both sewerage and water?

Mr Bulstrode: It is the same philosophy.

Dr Gill: And drainage.

Mr M.G. HOUSE: Are there any exceptions to that rule?

Mr Verschuier: I will just clarify that point. That is for the headworks or major works component. The developer then provides the reticulation.

The CHAIRMAN: I understand that. We are talking about the headworks costs.

Mr A.J. DEAN: You have charged Ellenbrook roughly \$7 000 for the headworks, but the real cost is \$17 500. Are you providing a \$10 500 bonus? I am just trying to clarify something. The people of Western Australia or the Water Corporation are providing the developers of Ellenbrook with a \$10 500 subsidy to develop that land. Is that basically what it is?

Mr Bulstrode: No. I will explain, and the explanation might answer your question. The special development area that applies to the north east corridor, which is colloquially known as Ellenbrook, has a component. It has a standard headworks contribution for its level of service. They pay 40 per cent of that cost and 60 per cent of that cost will come from the future ratepayer base. Because Ellenbrook was not part of the metropolitan development program at the time - in fact, there was no north east corridor program - it was recognised that the infrastructure providers would have to rejig their planning. We pointed out that bringing the services to Ellenbrook involved a connecting link, as we call them, of seven to eight kilometres for water. In the case of sewerage we had to take it right over to the coast to the major pumping station. At the time they looked at having a treatment plant there and those sorts of things. The Ellenbrook company looked at doing it itself, but decided not to go down that track. That is normal. The normal approach with the cost of the link is that the developer pre-funds and provides that. In working through the negotiations with all parties, the best solution was considered to be to seek the cost from each lot that was likely to get a benefit. The calculation was that about 30 000 lots would get a benefit - that is, water and sewerage - so in simple terms that cost is distributed over that number of lots. That is the additional cost to the standard headworks. I am aware that people tend to talk about 1.6 times the standard headworks. That is not the way to look at it in terms of how it is calculated. The factor that covers the cost of connection is 100 per cent recovery, not 40 per cent recovery.

Mr Verschuier: Just to put it in a slightly different way, if we look at it more generally than just Ellenbrook, the Water Corporation has three basic revenue sources; annual charges, consumption charges and developer contributions. When you ask about the 40 per cent of the capital cost, that is charged from developer contributions. The other 60 per cent is recovered from our customers through those other two charges.

The CHAIRMAN: Okay, so basically we are giving a developer a 60 per cent subsidy up-front, which we are going to get back from the person who moves to the property.

Mr Verschuier: That is right.

The CHAIRMAN: Why do we not make it 50 per cent?

Mr Bulstrode: The Government of the day made the decision to make it 40 per cent. We went in with a higher figure, but Cabinet made that decision.

Mr A.J. DEAN: Was that back in 1991?

Mr Bulstrode: Yes.

Mr A.J. DEAN: You will not say, but what percentage would you like? Would it be 50 per cent? How long is a piece of string?

Mr Bulstrode: It is fair to say that when we went to the Cabinet of the day we had a recommendation that we felt was defensible. We had used consultants to help us.

The CHAIRMAN: What was that percentage?

Mr Bulstrode: At that time we were talking about two-thirds being what the developer should pay. Do not take that out of context.

Mr A.J. DEAN: For example, the 40 per cent cost applies to Mt Barker. If I were to develop half a dozen lots in Mt Barker, you are still saying that 40 per cent would be the cost that you would charge the developer and that you do not really charge 100 per cent. That applies there as it does in Mandurah and Northam. Let us forget about the north east corridor.

Mr Bulstrode: If you were developing in Mt Barker or Mandurah, it would be the same figure. That is the user-pays approach that the Government of the day took. The rationale put forward by it was that the user-pays approach applies to the whole of Western Australia, and the user is the community of Western Australia. We would have an average.

Mr A.J. DEAN: Have you thought about refining that? One of the complaints we have received is that charges stifle development in some inland towns. Has any consideration, in a policy sense, been given to refining that so that you move away from the uniform tariff across the State?

Mr Bulstrode: We are continually looking at those things. Just to put it in perspective, you need to realise that the metropolitan area greatly subsidises the country in that process. In fact, if you did the calculation for the metropolitan area and for the country, the headworks contribution in the country would be three times that of the metropolitan area.

Mr A.J. DEAN: So you refine those figures enough to do that?

Mr Bulstrode: Yes.

The CHAIRMAN: You said that the figures are the same, but it appeared to us from evidence we received in Albany in relation to a subdivision in Mt Barker that the cost of subdivision headworks in Mt Barker was a helluva lot different from Denmark and Albany, where the figures were quoted as something like \$14 000 compared with \$28 000, depending on the suburb. Is there any other way in which those numbers could come up with those sorts of figures, or is that a peculiarity of the circumstances?

Mr Bulstrode: They can cost them by scheme if they want to. Because it is an averaging, there will be variations in cost. Being an averaging process, you will get unders and overs.

The CHAIRMAN: But if you have a uniform cost, would it not be the same in Albany as it is elsewhere?

Mr Bulstrode: It is the same. I think we might be running into a problem with the definition of headworks. One of the challenges we face is that if you are talking with the Department of Industry and Resources and others in that area, they talk about headworks and include the minor works component as well, which is the developer's responsibility.

The CHAIRMAN: The local works.

Mr Bulstrode: Yes.

Mr M.G. HOUSE: So that I understand this, do you apply the same charge to a 500 square metre lot and a two-hectare lot?

Mr Bulstrode: No. The headworks contribution is reflected on a tapered response.

The CHAIRMAN: Can you say that again?

Mr Bulstrode: There is a taper that is based on the area.

Mr M.G. HOUSE: So the 40 per cent is not uniform?

Mr Bulstrode: It is uniform as far as the standard headworks contribution. The reason there is a taper is that the consumption for smaller blocks is not the same as the consumption for two-hectare blocks. You adjust the developer contribution, but the standard unit is applied across; it is on a standard basis.

Mr M.G. HOUSE: What size block does the standard unit apply to?

Mr Bulstrode: Basically, it is 1 000 square metres.

Mr M.G. HOUSE: How long has it been since a developer has done a 1 000 square metre development?

Mr Bulstrode: The top bracket is 750, is it not, Peter? It is on the back of the submission.

Mr Verschuier: I think that 500 square metres and above is one. It is anything over 500 square metres.

Mr Bulstrode: For water, it is anything above 450 square metres.

Mr Verschuier: Below that you get a discount.

Mr M.G. HOUSE: So the standard contribution does not apply to 1 000 square metres, it applies to 450 square metres.

Mr Bulstrode: Up to.

Mr Verschuier: To 450 square metres and above.

The CHAIRMAN: Above what? A block of 2 000 square metres is above.

Mr Bulstrode: It is for a single residential equivalent. You need to understand that, when each lot is created, it is charged for the equivalent of one single residential equivalent, irrespective of what its zoning may be at that time.

The CHAIRMAN: I understand that. We are talking about the 40 per cent. We are trying to establish the 40 per cent. If you are factoring it in and saying that a 450 square metre lot gives a different result from a 1 000 -

Mr Verschuier: The 40 per cent is for one single residential equivalent; that is, a residential block greater than 450 square metres and up to -

The CHAIRMAN: I understand that, but to work out the 40 per cent capital cost you have to divide it into some figure. If you have 1 000 lots, it will give a different result from the one for 2 000 lots.

Mr Verschuier: From the developer's point of view.

The CHAIRMAN: No, even from your point of view for your averaging number. If you are dividing your total costs by 1 000 or 2 000, it will give you a different outcome.

Mr Verschuier: We take the total value of our headworks assets and divide it by what we call the number of single residential equivalents.

The CHAIRMAN: That have been created.

Mr Verschuier: That have been created.

Mr Meinck: That is for the whole State.

Mr A.J. DEAN: We are talking about the whole State?

Mr Meinck: Yes.

Mr A.J. DEAN: We should not be talking about subdivisions in Denmark or Mt Barker. That is irrelevant to this discussion.

Mr Bulstrode: The way we calculate it is set out in appendix A. If it would be helpful, we could come and explain it to you individually.

Mr A.J. DEAN: I think you earlier mentioned recalculations. How often do you do those recalculations?

Mr Meinck: Every three years. It is done with the industry. It has just been completed.

Mr Bulstrode: We have just completed it and the release is just coming out.

The CHAIRMAN: If we suddenly get a helluva lot more smaller blocks, we will get lower headworks costs.

Mr Bulstrode: Per block, yes.

Mr Meinck: We did a domestic water use study which was completed about three years ago and which looked at water use within dwellings. It clearly recognised the fact that blocks were getting smaller. We wanted to see what impact that would have on water consumption. That has now allowed us to reduce the amount for the smaller blocks. There is a bit of science behind it.

The CHAIRMAN: Does that mean that because the blocks are getting smaller, the actual headworks costs are getting lower per lot; that is, the amount paid by the developer?

Mr Meinck: From the point of view that the water consumption of smaller blocks is less, when we do a triennial review - one has just been completed - that would reflect a lower consumption figure and therefore a lesser requirement from the point of view of building new infrastructure such as dams. Obviously, if demand is less -

The CHAIRMAN: Yes, but you have more people.

Mr Meinck: Yes, that is right.

The CHAIRMAN: Therefore, demand will not change. The demand will be the same; it is just that smaller blocks mean smaller demand per block, but overall the demand will be the same.

Mr J.L. BRADSHAW: It will not be the same.

Mr Meinck: No, it will not be the same. The experience is that because it is a standard residential equivalent - it is a dwelling - and the number of people in the house are fewer than before, consumption levels are dropping. Garden sizes are also smaller. Consumption has reduced. Therefore, the new sources can be delayed. Therefore, the capital cost of new dams or treatment plants -

Mr M.G. HOUSE: Consumption has been reduced because you will not let us turn on the tap any more!

Mr Meinck: That also helps.

Mr M.G. HOUSE: In a practical sense, it will cost a developer more to excavate a very rocky area than a sandy area, which will be much easier to develop. How do you balance that equation?

[10.30 am]

Mr Bulstrode: Well, that it is his decision, because the minor works are totally the developer's responsibility. All the pipe work - in the case of water, up to 300 millimetres - is the developer's responsibility.

Mr M.G. HOUSE: The headworks charge to take that pipe through different types of land does not take that into account.

Mr Bulstrode: Where the pipes are our responsibility, it is accounted for in the asset value for our works. We do not dictate where a developer develops. If he elects to develop in hard ground, he has got to build into his marketing - when setting his price - the cost of putting in the infrastructure in hard ground.

Mr A.J. DEAN: But the authority brings the 300-millimetre pipe to the developer. In hard ground, there would effectively be a subsidy from people using soft ground.

Dr Gill: It is not a huge issue.

The CHAIRMAN: What happens if you want to go over an escarpment? I remember when I was on the commission that there was always debate about who would pay.

Mr Bulstrode: We used to have a double headworks contribution arrangement.

The CHAIRMAN: What happens now?

Mr Bulstrode: The decision was made that we would not have those sorts of things. With the merger of the Public Works Department with the water supply department, it gave the Government of the day the opportunity to make it uniform across the State. To be candid, it has worked extremely well. I think industry seems very comfortable with it. As was explained, they were involved in doing the triennial review, so those members of the industry who participate in the triennial review know that that subsidy exists. Having just gone through the one we talked to you about, they are well aware that developers are subsidising.

Mr M.G. HOUSE: While Jim is here, I want to ask a question about flexibility. We took evidence from Graeme Robertson in Albany the other day. He did the Walpole development on the west side of the town. To declare an interest, that just happens to be in my electorate. I am pretty familiar with what actually happened. I presume you are as well, with regard to the fact that the waste water treatment plant was not working. He was required to transport by road the effluent that needed to be deposited in the Albany waste water treatment plant in order for it to be treated. He paid the cost. You continued to charge him a rate despite the fact that he was not getting a service. His argument to us was that you did not have enough flexibility in your ability to make those decisions. That is the principal argument; I could go into it in more detail. That is the principle. He said that you imposed a cost on him and he was required to pay it as he developed the blocks whether you provided the service or not. You were not providing the service. He sold some blocks and he had to then pay for the cost of moving the effluent because he felt some responsibility, because he is a responsible developer. It got to the stage where you took him to court because he refused to pay. He said he would pay half, but not the other half. You took him to court for non-payment of rates. Can you explain to me how that works?

Dr Gill: Yes. I am aware of the case, of course.

Mr M.G. HOUSE: It is no good looking around you; you are the chief.

Dr Gill: I am sorry. I know about it; the details of what we charged and when. I am certainly aware of the delay in constructing the treatment plant. There were quite a few delays in getting environmental approval, which exacerbated the situation.

Mr M.G. HOUSE: That is true.

Mr Bulstrode: The situation is that a developer can make a decision to go ahead or start in a new location and he can come and talk to us about being the service provider. I will not go into the terms of the operating licence and the issues that exist at the moment. In terms of Walpole, that was all established. The developer then makes his timing decision whether he will go ahead of the works being provided or not. If he elects to go ahead of the works being provided by the corporation through our capital program -

Mr M.G. HOUSE: No. This is in sworn evidence that he gave us. He told us very clearly that you gave him an assurance that back works would be provided. You are right in saying there were some environmental issues, because there were a whole a lot of issues with regard to the site. Having given him an assurance that you would provide the service, he then went ahead with the development. The issue then developed that you could not provide the service, for whatever reason. The reason is not important. You still continued to charge him for a service you were not providing to the extent that you took him to court. My question is about flexibility of policy. I cannot understand in my own mind why you would continue to impose that sort of cost on a developer when, clearly, you were the ones not providing the service. He had an assurance from you that you would provide it. I just cannot understand how you got to court. That was his question to us as a parliamentary committee.

Mr Bulstrode: Was his question concerning paying the annual rates or was it in paying the developer's contribution?

The CHAIRMAN: Annual rates.

Mr M.G. HOUSE: Only that?

The CHAIRMAN: Yes, annual rates.

Mr Bulstrode: The developer's contribution is for the service in perpetuity. When a person pays the developer's contribution, that is part of us providing the capital works.

Mr M.G. HOUSE: He could not sell the blocks.

The CHAIRMAN: When you give a commitment that you will provide a facility and you do not, you then charge him a fee for using a facility that he does not have. It is a bit stupid.

Mr Verschuier: We can get some more information on the absolute detail if you would like us to.

The CHAIRMAN: That would be helpful, because it will be referred to in evidence and we need to have an answer.

Mr Verschuier: We will certainly do that. My understanding is that we did enter into an agreement with him at the beginning. One of the variables was when the waste water treatment plant would be provided, because it had to go through environmental approval and it was part of our infill sewerage program. Obviously, because we have our standard headworks price, we need to take actions to protect the wider community from very high costs. We said to him that we would not put in our waste water treatment plant until there was enough demand in the area to do that. We agreed with him up front that that was going to be the case. He had the option of what we call pre-funding the waste water treatment plant. He decided not to; to wait until we built it on the basis that he would pay for the tankering in the interim. Admittedly, that did take longer than we expected, but that was his risk, as I understand it. I will check that detail. While you are saying we were not providing any service, we were not carting the waste water. We were not treating it at that site. We were operating the pump station there. There was a gravity sewer system running into a pump station. We were operating that. He was then getting the sewerage from the pump station by tanker and carting it to our waste water treatment plant in Albany, I believe, where we were then treating it. It might have been Denmark.

Mr M.G. HOUSE: No, it was Albany. Denmark could not handle it.

Mr Verschuier: So that was the arrangement as I understand it. It was an arrangement that had been set up in the beginning with his full understanding.

Dr Gill: The question that is hanging, as I understand it, is what did we charge him and were we actually charging him for a service he was not getting.

Mr Verschuier: My understanding is that we were charging him in accordance with our agreement. We were providing a service; we were treating the effluent. We were collecting it but he was paying for the carting of it.

Mr Bulstrode: In simple terms, what his agreement said was that he was prepared to contribute the cost of carting the effluent from Walpole to Albany so that he could proceed with his development ahead of the facilities being available to him. In doing that, he then activated the scheme, so the rating became a legitimate charge.

The CHAIRMAN: Can you report back to us so we can incorporate that?

Mr Bulstrode: Yes.

The CHAIRMAN: I want to get back to the 40 per cent, because that is critical to our inquiry. The 40 per cent is your cost recovery. As an authority, do you have a view? Is there a better way of establishing that formula to better reflect the actual cost? It would appear to an outsider that you are subsidising developers to the tune of 60 per cent of the cost of infrastructure. I have two questions. Firstly, is there a better way of doing this and clearly identifying this up front so the

whole community can understand? Secondly, what are the percentages that apply in other States and is there a better way of generating the cost of the actual capital? That is fundamental to our inquiry. If we are to look at changing the process, that is the basic question we need to look at. These other issues are important, but they are minor compared with the real issue of the 40 per cent versus 60 per cent being taken long term from the rates.

Mr Meinck: From the point of view of the mechanism by which we come to a number, which is the SRE equivalent, and the calculation based on the asset value by the number of SREs, I think all the analysis that has been done indicates that it is a very fair and predictable system for a State like Western Australia to end up with.

The CHAIRMAN: If it is a fair and equitable system, why did you recommend two-thirds previously?

Mr Meinck: Sorry. I mean the means of calculating, not the percentage. That is another discussion - the way by which we generate something that is transparent. As I mentioned earlier, the people from UDAC check the SRE numbers and the asset valuation numbers. In fact, we had a third party review during the previous triennial review. Someone independent of the Water Corporation could look at it and confirm that the numbers were valid. We believe that the process works well. The standardisation of it across the State works well. The predictability for the industry works well. We had an indexation arrangement between the three years. Again, one of the benefits for developers particularly, and the community, is to have something which is more predictable. Predictability in the land development business is extremely important, which I am sure you would have heard from other representations. As to whether 40 per cent, 60 per cent or 100 per cent, that really does get to a point of philosophy. The position we took some years ago, as Roger has said, was to be 66 per cent; that is, two-thirds. It is a trade-off; it is an intergenerational equity issue. How much should we pay up front versus what the community into the future should pay. Quite bluntly, I have seen so many representations, many of them from UDIA, as you well understand, who would like to take it down to zero per cent. They believe that the 40 per cent, which is an up-front charge, is paid for by first home owners in their mortgage. They may have spoken to you about that as the position they take. That increases the headworks charge, and the headworks charge is included in the price of the lot. Therefore, how does the lot get paid for? It gets paid for, obviously, by a mortgagee. That is the argument from the point of view of keeping it low. The argument for keeping it high principally rests on the basis that people getting the benefit should pay the lot right now. As an organisation, we believe that the 40 per cent is too low. We put that position previously. It is a complex issue because there are trade-offs involved at both ends of the spectrum. Would Roger like to add anything more?

The CHAIRMAN: A question before you go to Roger. In relation to the 40 per cent versus 60 per cent, what about the argument that if you were to reduce it, it would not reflect any reduction in the cost of land because the developers will try to get the maximum they can for the land whether it has cost them \$10 000 or \$15 000 to develop? If a developer were going to receive \$200 000 at Quinns - which I was amazed he would get - the fact that it was reduced from 40 per cent to 30 per cent will not mean that the \$200 000 will be reduced to \$180 000. The developer will not say that he is generous by giving a \$20 000 refund on the price of the land. This is the argument that is fundamental to the whole equation.

Mr Meinck: Yes, and it is fair comment. The other part of the equation is that interest rates have a far greater impact on lot costs than headworks charges. You are absolutely correct.

Dr Gill: If one assumes that the development industry is a competitive industry, they will try to obtain an advantage over their competitors. One of the advantages is lower costs. The prices they charge will be reflective of the total of costs to an extent. Therefore, presumably high headworks charges -

The CHAIRMAN: But one of two things will happen, as has been indicated before in some of the evidence. When the developer does his costings, if the costs are lower in relation to providing the headworks costs, he can then afford to pay a bit more for the price of the rural land. In the end, the cost does not actually make any difference. The person selling the land gets more or the developer says he cannot pay that and offers a lower price for the in globo land. In the end, are we as a Government subsidising developers to the detriment of the end person, because he does not get any benefit at all?

Dr Gill: It is an argument.

Mr J.L. BRADSHAW: I do not know whether anyone has been around long enough to remember, but I think you indicated that the headworks charge was brought in during the 1970s.

Mr Bulstrode: The headworks charges concept first started in the late 1960s. It went through on individual cases during the 1970s, which led to some confusion, as you can imagine, because it is a very complex industry. During the late 1970s, the industry got together with the Metropolitan Water Authority, as it was at the time, and said that they really had to sort out how they did that. They said they preferred a standard charge rather than negotiating on an individual basis for each development.

[10.45 am]

Naturally, you can think that they all thought someone else was getting a better deal or something like that.

Mr J.L. BRADSHAW: What I am trying to get at is that prior to that time there was no headworks charge. Why is there a need now to have a headworks charge when prior -

Mr Bulstrode: The reason was that the Government could not raise the funds to provide the infrastructure going out, and particularly as the demands for services became higher and higher. If you did not have gravel roads, you wanted a bitumen road. Then you needed kerbs, and you wanted a water supply put out there at the time. People were not prepared to go and to start on their block and wait for the water to come along when the funds were available. It was very successful that way, I think, in terms of the model. It does mean that the developer who gets the benefit up front when a rezoning takes place and his subdivision is approved meets some of the costs up front of getting that benefit, and the beneficiary principle is behind that.

Dr Gill: I am sorry, Mr Chairman, I have to take my leave.

The CHAIRMAN: Is there another question?

Mr J.L. BRADSHAW: You may not need to answer this. It is to do with drainage. If one of the others can answer it -

Dr Gill: I will leave you with all these very knowledgeable gentlemen.

Mr J.L. BRADSHAW: Okay.

The CHAIRMAN: Just before you go, Jim, the member for Bunbury would like to ask you one quick question.

Dr Gill: Sure; yes.

Mr A.J. DEAN: No, it is too complex.

Dr Gill: It sounds like a Dalyellup one.

The CHAIRMAN: Yes, it is. Can the others answer that one?

Dr Gill: Yes, they certainly can. I just think it is important to emphasise the rules of the day that were set up by the Office of Water Regulation of the day. There were rules set up at a certain time.

Mr A.J. DEAN: I have learnt quite a bit this morning. I have learnt that there is a 40 per cent charge, so if you do something in Bunbury, whether it be College Grove or Dalyellup, the developer is fairly well warned of what the headworks charges will be. Dalyellup is a special case in which - I do not know why - for some reason Aqwest put in a tender. I do not know whether it was requested to tender or whether it did it off its own bat. I have learnt this morning that the 40 per cent charge is the cost to the developer, but the 60 per cent residual is - just correct me if I am wrong - gained over the years when money comes in for user charges and so forth, so you regain it that way. I have learnt this morning that this is a problem now, because that puts some problems in mind with Aqwest. Aqwest has told us that it could have provided the service to Dalyellup at a cheaper rate than did the Water Corporation. I also make the point that the Water Corporation does not provide the service; it subcontracts it out. Therefore, to a certain extent it would have subcontracted that out. However, then you have the fixed price. From your understanding, was the Aqwest price cheaper than your 40 per cent? In a case in which you have independent operators like that, how do you factor the residual 60 per cent into your cost, which obviously, if it was for base water, it would have to take up over the ensuing 50 years? This morning before I came here I started out quite clear on this, but since then the information has made it very blurry.

Mr Meinck: Okay. It is because Dalyellup is a very different kettle of fish. Forget everything about the 40 per cent because -

Mr A.J. DEAN: It is an Ellenbrook-type -

Mr Meinck: No. It is more complex than that. As Jim mentioned before he left, it was a product of the industry restructure that concluded at the end of 1995. When the Water Corporation came into place in 1996, the Office of Water Regulation was in place. We operate under an operating licence. It was a new world. One of the issues was to try to encourage competition in greenfield sites. That was part of the principle behind the industry restructure of 1996, and it was one of the first cabs off the rank. Satterley was the developer - or not the developer -

Mr A.J. DEAN: Has it been the only cab off the rank?

Mr Bulstrode: He was a representative of the developer.

Mr Meinck: He was a representative of that. It was adjacent to the Aqwest area, but it was not absolutely next door to it. The Office of Water Regulation determined that this was a great opportunity to try to test this competitive market. Therefore, we were invited to in fact tender. It was not our preferred way of doing it. Under a normal model, we would have got it automatically, because it was outside the operating licence area, in fact, of Aqwest. They were the rules. We sat down, we sharpened our pencil, and we worked out what we believed would be a headworks charge, and that headworks charge came out significantly lower than the 40 per cent.

As we have talked about earlier, the 40 per cent is an average, and it takes in a lot of high-cost areas. Dalyellup is relatively cheap because it has ground water on location - no dams or anything else. Therefore, from a headworks point of view, the figure we came up with was significantly less than what the 40 per cent would deliver. It was a tender. We were not the beneficiary, to my knowledge anyway, of what the competition figures were. We were successful in that competitive bid. The figure, as I have mentioned, though, was definitely less than the 40 per cent. The implications of that are that we have ended up running Dalyellup. We have been doing that now for four years. Growth in Dalyellup has been extremely high - much higher than was assumed at the time that we were putting our numbers together, I assure you. Therefore, it has ended up being quite a productive and profitable business for us. However, it was atypical. Nothing like that has happened since. We have had a few furtive efforts. I think Kemerton was one, but that is industrial. There was also Coral Bay, which has come to a different conclusion. It has not really happened since. One of the outcomes of that model is that in fact we have received less than we would have received if we had a 40 per cent arrangement. Most of our profit goes as dividend to

government. Therefore, the cash component of headworks goes in dividend. Therefore, the end of that little experiment is that basically government has lost out.

Mr Bulstrode: That subdivision is not making any contribution to the averaging across the State.

Mr M.G. HOUSE: You are expected to make a contribution to government. Where is that factored into your calculations when you do a headworks charge?

Mr Meinck: No, it is not. It is just an outcome. It is an outcome in the sense that developer contributions are part of the profit of the organisation, along with all of the rest of the billion dollars that we make every year in revenue, and \$400 million-odd in profit. Therefore, it does not come into a specific equation. It is not calculated on the basis that that has to provide some specific profit to government. Obviously, in times of significant growth, which we have been in in the past two years, it is quite a large component of our total figure. However, in the cycle of development, it can be quite a low figure.

The CHAIRMAN: If your argument about averaging is true, with this case in Dalyellup, whether it is the Office of Water Regulation or whoever, basically it has said that your averaging of the headworks cost is out the window; here we go with anybody who has a special case having to reach an agreement.

Mr Meinck: That is right; and we do not agree with that.

The CHAIRMAN: You may not agree with it, but if I were a developer down the road, I would say, "Well, if it is good enough for Satterley to get it here, why isn't it good enough for me to get less than the 40 per cent?"

Mr Meinck: Areas that are within the operating licence areas automatically come under the standard headworks charge, and the operating licence areas are established. It may be a greenfields location outside the operating licence area. A couple of years ago the Office of Water Regulation, in fact, very consciously shrunk our operating licence areas to be able to encourage more of that type of greenfield activity. However, it has not manifested itself. There was one other in Bunbury, which was the subdivision for College Grove, and we ended up convincing them that it was better to go with us, rather than going, say, with -

Mr A.J. DEAN: Then they re-declared that area to you?

Mr Meinck: Yes.

Mr A.J. DEAN: The perception is that Aqwest underquoted you by 20 per cent.

Mr Meinck: Why were they not successful?

Mr A.J. DEAN: No. I can see that the perception of underquoting you by 20 per cent would have been equated to the 40 per cent head charge. I do not know. I am just second-guessing. It may have looked at your estate average - say, a headworks charge of \$7 000 per block - and said that it could do that for \$3 500. Is that the order of magnitude that you come in under?

Mr Meinck: Less than that.

Mr A.J. DEAN: If Aqwest's perception is correct -

Mr Meinck: If it was comparing it with the 40 per cent, the standard headworks figure, yes.

Mr A.J. DEAN: Okay. I can understand that.

Mr M.G. HOUSE: It was less than that in that one stand-alone case.

Mr Meinck: Yes, where you have a local water supply - you can just put down a bore and suck it up. It turned out to be a bit more complex but -

Mr M.G. HOUSE: Are there any other examples that would be as out of kilter as that one?

Mr Meinck: No.

Mr M.G. HOUSE: That is a fairly extreme example.

Mr Meinck: I think because of the experience of it, the Office of Water Regulation has not really pursued it to a great degree since. You would be well aware now that that role is now with the economic regulator.

Mr A.J. DEAN: Policy-wise, it would be pretty disastrous for country developers if you were not able to average.

Mr Meinck: Absolutely.

Mr A.J. DEAN: I am just thinking off the top of my head. For people in Mt Barker, Kununurra and Narrogin, if you started reflecting true costs, I think someone said earlier that -

The CHAIRMAN: It would mean that you would never develop any lots in Mt Barker, because the costs would just blow them out of the water.

Mr Meinck: Exactly.

Mr M.G. HOUSE: To follow Tony's theme, which I agree with in principle, at the other end of the equation, can you give us an example of a development that blew out the other way?

Mr Meinck: You mean costs of -

Mr M.G. HOUSE: Where the costs would have been huge by comparison with your 40 per cent average headworks charge.

Mr Meinck: The country ones will all be like that.

Mr M.G. HOUSE: Yes, but I just wondered whether there was one that you could demonstrate, off the top of your head -

Mr Verschuier: This might be an opportunity to talk about rural subdivisions, just for a minute. There are a few cases in which we do not charge this standard headworks contribution. Ninety-nine per cent of development in the State has this standard headworks contribution. However, there are a few cases in which we do not charge that, through government direction. One of those is what we call rural subdivisions, which the Government decided would not come under a CSO arrangement in the country. That is for lots greater than one hectare. Therefore, for rural residential lots greater than a hectare - they are essentially hobby farm type ones - we charge what we call a commercial rate. We charge the developer enough so that that lot will make us a profit in perpetuity.

The CHAIRMAN: Does that mean that you are providing a service? In other words, some of the evidence we heard down south was that special rural lots get a water supply.

Mr M.G. HOUSE: They did not want it in some cases.

Mr Verschuier: This is if they want one.

Mr Bulstrode: Or if there is a condition imposed upon them to have a potable water supply.

Mr M.G. HOUSE: By whom?

Mr Bulstrode: By the planning department.

The CHAIRMAN: You then pluck this figure out of the air and say that that is what you are going to charge them.

Mr Bulstrode: No. We cost our schemes accordingly. There is a 50 per cent subsidy along the goldfields and agricultural pipeline. However, when you get to Bakers Hill and places like that, you might be talking about \$10 000 a service. These are just figures to give you an indication. When you get to Wongan Hills, it might be \$15 000, and when you get to -

The CHAIRMAN: If you do not charge them \$15 000, what would you charge them?

Mr Bulstrode: They have to pay half that. In other areas of the country, they have to pay the full cost, which might be -

Mr M.G. HOUSE: Is that a transparent figure, Roger, because we have taken evidence that suggests you will not provide that information to developers so that they can establish whether it is a real cost or whether it is something you just worked out?

The CHAIRMAN: Just plucked out of the air.

Mr Bulstrode: It is certainly not plucked out of the air.

Mr M.G. HOUSE: I would not expect you to say that it was. I hope it is not.

Mr Bulstrode: We set out to be able to demonstrate our costs in an open-book way.

Mr M.G. HOUSE: The question is: is it a transparent figure? If I am the developer wherever, will you give me the figures and demonstrate to me how you arrived at that cost?

Mr Meinck: Certainly, the ones up the GAWS pipeline have been looked at by more people than I can count, so that is very transparent.

Ms J.A. RADISICH: Every developer whom we have inquired of has said that they have been unable to get any breakdown of the figures from the Water Corporation.

Mr Verschuer: These developments are rare. We must have about 100, if that, a year, or perhaps 50 a year. I am sorry, I will not say "developments". I mean lots.

Mr Bulstrode: We are talking about only five or so subdivision proposals.

Mr A.J. DEAN: We are talking about apples and oranges.

Ms J.A. RADISICH: All the developers whom we have taken evidence from have made the same comment to us.

Mr Verschuer: About these sorts of developments or generally?

Ms J.A. RADISICH: About the breakdown of the provision of Water Corporation headworks.

[11.00 am]

Mr Meinck: I find that very surprising because, as we talked about earlier, the establishment of the standard headworks is done together with industry people, and they have access to all the information. Let us not run down these minor areas. For 99 per cent of headworks affected lots, the industry is fully available.

Mr J.L. BRADSHAW: What about with Ellenbrook? You explained that it is not the headworks but the bit that joins the two.

Mr Verschuer: In that case I can tell you unequivocally that about four landowners elected to be a party to it; not everyone elected, and one major one opted to stay out. Those who agreed had their own consultant involved. Issues were compared and the whole price, the methodology, models and the figures were agreed. When people say that it was not by agreement, I can assure you that it was by agreement.

Mr J.L. BRADSHAW: Or transparent?

Mr Verschuer: Or transparent - sorry.

The CHAIRMAN: They are getting a 60 per cent subsidy anyway.

Mr J.L. BRADSHAW: No, they have to go from that to this price.

The CHAIRMAN: I know, but the overall head lease costs -

Mr J.L. BRADSHAW: The head lease is different. It was said that at Ellenbrook they were not transparent.

Mr Meinck: The Ellenbrook one, of course, was complex in the sense that when the headworks arrangements were put in place, they were done on the basis of a notional scheme of how the water was going to come into the north east corridor, similar to what was done with the north west corridor previously. You are having to make those figures on the basis of how you believe that the water will be provided. In the end it may be provided in a degree somewhat differently. For instance, in the north west corridor, it was going to come from dams originally but ended up being bored from ground water because it was concluded that ground water could be developed to a greater degree. I can understand if they are indicating some concern in relation to that. Again, we discussed these things very openly. We provide them with that information, but we would be very keen to see what is coming forth from your discussion, because I can assure you that we are very keen to have transparency. We have worked very hard with the industry to try to make sure that we are an open door for them.

The CHAIRMAN: Just getting back to the 40 per cent, if we were to change the 40 per cent contribution to 50 per cent, in real dollar terms what difference would that make to the revenue to the Water Corporation and State; in other words, what is the difference - getting 40 per cent cost recovery, which is the current headworks cost, going up to 50 per cent or maybe even your two-thirds? You will have done the exercise. What difference in real dollars a year to the State does it represent?

Mr Verschuier: We have not done that recently, but if you think we are getting \$100 million a year on a long-term basis, it is 10 per cent, so we would get \$110 000.

The CHAIRMAN: What other numbers are you getting in a year?

Mr Meinck: There will be about a \$20 million difference this year.

The CHAIRMAN: If we were to recommend going from 40 per cent to 50 per cent cost recovery, it would make \$10 million.

Mr Meinck: This year is a very big year. On average it would be more like \$12 million; I suppose, roughly the same.

The CHAIRMAN: Does the 10 per cent from 40 to 50 per cent mean \$20 million this year?

Mr Meinck: We will verify that.

Mr J.L. BRADSHAW: With regard to infill, I have a block of land in the city, which I split half and battleaxed for access. Is there a headworks charge for that splitting?

Mr Verschuier: Not for the splitting; there are headworks contributions applied to each new service we receive. In that case you would get credit for your old block, which would go to one of the new blocks, and you would pay your contribution to the other new block.

The CHAIRMAN: That would be the equivalent of a new block.

Mr Verschuier: It would be the same whether it was in greenfields or not.

Mr J.L. BRADSHAW: How do you work it out? How do you get a credit?

Mr Verschuier: The existing property is deemed to have one headworks credit. The property may be 80 years old or created only two years ago. If it were two years ago, it would have been paid, but for properties older than 1980 that have not paid a headworks contributions, we deemed that they would have headworks.

Mr J.L. BRADSHAW: If you have worked out you would use less water with a split block, why have a headworks charge?

Mr Verschuier: It is because we still need the water at source. It is for in-house use when you start to make the blocks smaller. It becomes a crucial factor.

Mr M.G. HOUSE: How do you work out those figures?

Mr Verschuier: The link with the single residential equivalent is the consumption a SRE; in simple terms that is about 350 kilolitres a year at the moment.

Mr M.G. HOUSE: In these days of accrual accounting, do you add a percentage of the capital cost of the infrastructure, like a dam?

Mr Verschuier: The dam is built into the SRE; it is a capital cost. It is a modern-equivalent asset value. You take the total cost by definition of replacing all the assets you have in hand at the moment to service all the customers you have in hand at the moment.

Mr M.G. HOUSE: You do that every three years. Is that what we are coming back to?

Mr Verschuier: Yes.

Mr M.G. HOUSE: You revalue everything every three years to establish that figure

Mr Verschuier: We revalue on a continuous basis.

Mr M.G. HOUSE: To follow through on John's question and to take a hypothetical case, what happens if he builds a block of flats on that block, creating 10 or a dozen new consumers?

Mr Verschuier: He would get his one credit, and then he would have to pay what is assessed according to the total for what is necessary for the demand.

The CHAIRMAN: If we take the multistorey apartment blocks in town, they have gone from one service to 150 services for units or town houses. Are you telling me that they will be paying 150 times?

Mr Bulstrode: We were talking before about factors. Blocks of 450 and above pay one. As they get smaller they pay a proportion of that, or less than one. If you have a block of 20 flats, we take the area of the land and divide it by 20. That gives an area per dwelling, if you like, and then you use the table to say that each one of those dwellings pays point whatever it is of a standard headworks contribution.

Mr Meinck: These are agreed with the industry.

Mr Verschuier: As a fair way of doing it.

Mr J.L. BRADSHAW: Do they have individual water accounts or is it one for a high-rise block?

Mr Verschuier: It goes into the corporate body of a high-rise block or the owner depending on the arrangement.

The CHAIRMAN: Remember the 40 per cent to 60 per cent argument. When you are building those flats you are giving the developer a benefit by saying that you will discount the 40 per cent, in this case down to five or six per cent, but you are not actually discounting the 60 per cent that the poor devil who will live in one of those townhouses will pay, so it is all contributing to your capital.

Mr Bulstrode: We are, because it relates to standard residential equivalents.

The CHAIRMAN: The 60 per cent capital component of the rates will still be on the bill. The money is being given to the developer but not to the poor person who is walking through the door to live there.

Mr Bulstrode: They will get a reduction in their consumption charge. Because they do not use so much water, they will not pay so much in water consumption charges.

Mr M.G. HOUSE: They get a rate bill though, do they not?

Mr Bulstrode: Yes.

The CHAIRMAN: They do not get the 60 per cent reduction. Is that not unfair?

Mr Bulstrode: Putting my policy hat on for a minute, I guess all these things are a balance between getting it absolutely right for every person and making it workable and understandable.

We do not want every person having an exact calculation for their little house every time they go in. First, they will not go in knowing what they will have to pay. If you have it that complicated, they will never understand it. There are times when we need to strike an average and have a balance. We try to strike that balance, and that is why we discuss it a lot in industry.

The CHAIRMAN: I understand that. With my government hat on and my member of Parliament hat on, I would prefer to give some benefit to a person going into one of those flats rather than a reduction on the 40 per cent given to the developer who will get \$500 000 for a unit on the terrace overlooking the river. The cost for the developer, the headworks costs, will be only \$1 000 or \$2 000, or even up to \$7 000; it being the total cost. Why are we giving the developer a subsidy and concession when the poor devil who is going into the flat and who deserves the concession will not get it but pay the top price? The developer will not reduce the price of a unit if the Water Corporation people say that they are nice guys and they will discount the 40 per cent to five per cent. Why are we doing it?

Mr Meinck: It gets back to the question of who sets the 40 per cent, and the Water Corporation does not set the 40 per cent.

The CHAIRMAN: You set the discount from the 40 per cent to five per cent.

Mr A.J. DEAN: It is based on a land area.

Mr Verschuer: May I explain? The 40 per cent does not change. We are simply saying that we will rate an area as having five SREs, but the 40 per cent still applies.

The CHAIRMAN: If I had a five-acre lot and divided it into 50 lots, I would be paying 50 times the headworks costs.

Mr Verschuer: Yes, because the subdivision action brings the services there.

The CHAIRMAN: The services are already there. The block is in the metropolitan area; it is not in greenfields.

Mr Verschuer: Depending on the subdivision arrangement, 50 lots would be a tricky one to accomplish without some further services.

Mr M.G. HOUSE: What percentage of Water Corporation income comes from developer charges?

Mr Meinck: In revenue, about 10 per cent.

Mr M.G. HOUSE: So it is not a big deal. What is a big deal for you really is the charge that you make for water and sewerage rates on an annual basis, is it not?

Mr Meinck: Yes.

Mr M.G. HOUSE: Do you use the same principles?

Mr Meinck: They are the same principles in the sense that, yes, we have what is called in the vernacular postage stamp pricing. That means that we have uniform pricing for water. Our services charge is uniform throughout the State. The charge for water is uniform up to, and varying a little between, 350 and 550 kilolitres. That is the standard around the State. There is a principle of uniform application of pricing, which supports the way the Water Corporation operates and pretty well most water companies around Australia.

Mr M.G. HOUSE: If I had a house in the city on the same sized bit of land as the one I have in Albany, my water rates would be approximately the same. What is the difference in providing the service to me in a rural area like Albany compared with, say, Wembley Downs?

Mr Meinck: For water?

Mr M.G. HOUSE: The rates for water and sewerage?

Mr Meinck: The sewerage is related to gross rental value, so sewerage has a different principle. In fact, it is an issue that has been looked at a number of times. Some agencies around Australia have in fact linked sewerage pricing to water consumption - sort of water in, water out. We have a complexity here, because a lot of people have bores. You end up with a complexity in how you create that relationship. However, it has been talked about. It was one of the things discussed in the run-up to the last state water strategy to see whether there was an opportunity to move off GRV-based sewerage prices.

Mr M.G. HOUSE: Our inquiry is and must remain about developer contributions. It is not really the big deal, is it, for the Water Corporation; the big deal is what we have just talked about.

Mr Meinck: That is correct, although from the point of view of capital it is still a significant contribution to allowing us to have sufficient capital to continue to be ahead of the development requirements. Apart from the comments you made earlier about not allowing you to turn on your tap - fortunately, we are for two days a week - the key, with the exception of what has come out of the draft in 2001-02, is that we have not held up any development by virtue of not having infrastructure in place through what has been a totally unrecorded level of activity throughout the metropolitan area and certain regional centres. I think that has been the good news has been, and I hope that other developers have said it. I think our track record of being ahead of infrastructure is good.

The CHAIRMAN: Getting back to you working out the figure for your capital, we were talking to one of the consultants in Victoria who made the comment that the factoring in of the cost of dams in the equation of cost recovery for infrastructure is inappropriate, because those things do not involve ongoing maintenance as ongoing maintenance is minimal. The capital cost of that infrastructure was incurred when they were built 50 or 60 years ago. It should not be incorporated into the figure because it then creates an artificially high price for developers to pay for headworks costs. It is not a view I support, but what is your view, as the Water Corporation, of having in the equation those things that have already been paid for by previous communities?

[11.15 am]

Mr Meinck: We adopt the modern equivalent as a valuation and that at least supplies that consistency of application. He is not totally right about dams; the standards in dams have been increasing. Over the past three years we have had to spend in the vicinity of \$190 million in upgrading dams, bringing them up to standard, which is changing as communities become less risk taking. For instance, we spent \$44 million just in upgrading Canning Dam, and that was done about four years ago.

The CHAIRMAN: Is that reinforcing the structure?

Mr Meinck: Yes; we put tendons down into the rock to allow it to sustain higher flood levels, which we have to accommodate under new standards put out by the Australian National Committee on Large Dams. These things do not stand static. Many of the south west dams still have to be upgraded, which I am sure John is aware of.

Mr J.L. BRADSHAW: I was just saying that it cost about \$20 million to upgrade Waroona Dam. The previous witnesses indicated that there is a problem with Ellenbrook because nobody wants to know about drainage. As far as I know, it is your responsibility to look after drainage. You get a CSO. Is there a problem with drainage?

Mr Meinck: No. We get a CSO for country drainage.

Mr J.L. BRADSHAW: No, I am talking about Ellenbrook.

Mr Meinck: We do not get a CSO for metropolitan drainage. With Ellenbrook there is a special arrangement; there was a special headworks for drainage. Our drainage rate and our drainage headworks are based on the principle that we look after only volume; in other words, it is to prevent

flooding. The emerging issue with drainage, which I am sure everyone is aware of, is nutrients and contaminants. Our rate base and our headworks charges do not allow for that, and you would be aware that Dr Wally Cox is looking at that issue.

Mr J.L. BRADSHAW: No, I am not.

Mr Meinck: A seminar was held recently. That is an emerging issue that needs some resolution. We do not have that. In the case of Ellenbrook and Thomsons Lake, because there were recognised environmental issues associated with the drainage water, it became a condition of the headworks of those areas to allow for certain interventions. Ellenbrook ended up with a nutrient-stripping basin, which has been constructed. Thomsons Lake had a special drainage arrangement, with a major drainage pipe taking excess drainage water to prevent excess flooding of some of the lake areas. They are two exceptions, but generally -

Mr J.L. BRADSHAW: That nutrient stripping has been done. I can remember going to the launch at Lake Monger, and nutrient-stripping arrangements were put in place. To be quite honest, I do not know whether you or some other government agency did it. Obviously that was paid for by the Government rather than the proponents.

Mr Meinck: There are recommendations and there is work happening on things like the Mill Street drain. People are looking at ways by which we can strip nutrients, but it is not working terribly well generally. Our problem with nutrient stripping is more complex than that experienced on the eastern seaboard, because we are putting these things down in high water table areas, so there are some technical issues that need resolution.

Mr J.L. BRADSHAW: Who is paying for this nutrient stripping?

Mr Meinck: The ones at Ellenbrook and Thomsons Lake were paid for by a special headworks charge.

The CHAIRMAN: If you had a blank sheet of paper and wanted to redo the developer contribution in relation to water, sewerage and drainage, what would you do to change it?

Mr Meinck: We have been through the process. Marsden Jacob did a major review. The eastern seaboard, particularly Sydney and Melbourne, are moving towards developer contributions that are specifically related to areas within the city, and the logic for that is that if you start to give the right signals, people will move to areas where there is a lower developer contribution. From an economist's point of view, that sounds extremely attractive. Our view - the three of us share that view - is that the uniform model that has been applied in this State has served the State well, and I think it is continuing to do that. It certainly looks after the regional centres to a far greater degree. I would not know how you would be able to achieve it without significant CSO contributions from government directly to allow many of the regional developments to occur. I believe it is working well. I think the developers have predictability, so I would not change it. I think we have had enough discussion about the percentage.

Mr Bulstrode: To put it in perspective, we have a standard headworks contribution for a third of Australia. Something like 90 different headworks developer contributions are required in Sydney. If you put that into the whole of New South Wales, you are talking thousands. The complexity for a developer making a decision compared with that for a developer in Western Australia is greatly exaggerated. The discussions I have had with both eastern States developers and local developers, and those who develop both areas, indicate that the Western Australian model gives the certainty to encourage investment.

Mr Meinck: The other issue, which has not come through as much today, is the pre-funding model that we utilise; that is, we encourage by our pricing mechanism a continuous frontal development, which is the best for the community. It is not just water and waste water; it is for roads and schools - all that infrastructure that comes with development. If people want to leapfrog, we have arrangements by which they can have the opportunity to pay up front and they get paid back on the

basis of how quickly they develop the lots; in other words, we hold them to their predictions, because very often developers can be optimistic.

Mr Bulstrode: It may also include other development.

Mr Meinck: It is not only them; other people will jump on to a leapfrogging development. We have found that that works extremely well.

The CHAIRMAN: In that case, do the developers get back 100 per cent or 40 per cent?

Mr Bulstrode: They get the full value of the works and recognition of the design fees.

The CHAIRMAN: Is that inflated? If you were doing it, they would be charged only 40 per cent of the total cost. Under the averaging model, 60 per cent is paid by their rate base. If I was a developer and had to pay the whole lot to get the thing to happen, would I then get back from the water authority everything I paid or would I still get back only 40 per cent?

Mr Bulstrode: In simple terms, they are being a contractor for us, providing the works. You could argue that they are lending us the money. They are building the works for us ahead of time and they are taking the risk.

The CHAIRMAN: I understand that, but do they get back 40 per cent or 100 per cent?

Mr Verschuier: They still pay standard headworks contributions. On top of that, they provide the local headworks infrastructure and, when we deem the time is right, we give them back all the cost of their headworks infrastructure. However, they have already paid the 40 per cent and they do not get that back.

The CHAIRMAN: Do they get interest on top of all that? If it is 10 or 20 years, do they get it all back?

Mr Bulstrode: No. In the formula we have, they do not get the interest on their money. That is the risk they take.

The CHAIRMAN: That is not a bad deal for you. Somebody puts up \$20 million and in 10 years you get \$20 million back.

Mr Verschuier: It is because they are developing it ahead of the front. That is the cost. The cost of developing ahead of the front is the interest component. It is right that they should pay that.

Mr A.J. DEAN: The price of land in Western Australia is far outstripping -

Mr Bulstrode: We do escalate according to the construction indices. It is only the interest component for which they do not get the real value.

Ms J.A. RADISICH: Does the Water Corporation maintain an interest in nutrient-stripping basins that have been built as a condition of headworks?

Mr Meinck: Yes.

Ms J.A. RADISICH: To what level?

Mr Meinck: I could be corrected, but I think a committee with the Water and Rivers Commission oversees the Ellenbrook one.

Mr Bulstrode: Yes, there is a technical advisory committee. We are always interested when the drain is a declared main drain and that basin may be discharging into it or it may even be seen as part of our asset to look after it.

Ms J.A. RADISICH: There is an ongoing responsibility and interest.

Mr Bulstrode: Yes, when it is part of that commitment. You need to appreciate that we are not responsible for the quality of water being discharged from our drains at this point, unless it is specifically agreed with our licence. One of the things the Water and Rivers Commission, or DOE as it is now, have to resolve is how we will deal with all that.

Ms J.A. RADISICH: On another matter, can you define for me what exactly is a special development area?

Mr Bulstrode: A special development contribution area is when the developer seeks a level of service beyond what the standard headworks contribution will give; therefore, he negotiates to get another aspect of service.

Ms J.A. RADISICH: Is that because they are leapfrogging or because they are in some particular area?

Mr Bulstrode: It can be both; it can be any factor.

Mr Meinck: For instance, the north west corridor was leapfrogging well ahead of any front at all. Ellenbrook would be an example in the north east corridor, but additionally it had particular problems in relation to drainage quality. It had both.

Mr Bulstrode: In the north west corridor, what the 10 landowners wanted to do at the time and what the Government was concerned about was that because two landowners had the whole width of the corridor, they could restrict the rate of development and hold people to ransom. The other landowners said that they wanted to be considered frontal so that they could continue. It was worked out that 24 000 lots were involved and, theoretically, a four-year development timetable would use that up at the rate they were predicting. That, of course, did not take place, but that let them be considered frontal, provided they gave us 12 months notice and the land planning gave us a permanent servicing route. That gave an area of about 10 kilometres by six kilometres frontal status, and they paid the acceleration cost, which was quite a number of million for them, and that is the difference.

Mr M.G. HOUSE: With regard to small country towns where the local authority is probably going to be the only potential developer - I am talking about towns like Jerramungup or Wongan Hills - have you ever considered giving some sort of a subsidy prior to the development while the blocks are being sold to encourage that development?

Mr Meinck: We have that arrangement.

Mr Bulstrode: In those situations, we have offered that the development release one block at a time. In fact, coming out of the good work done with the people associated with the industrial blocks in Albany, we developed a way that we could let them release one block at a time. That does not mean that they do not have to provide some retic that might be required for other blocks. I understand that is working well.

The CHAIRMAN: Thank you very much for your evidence. We might need to talk to you again before we finish this inquiry, because as we go through the hearings other issues arise. Is there anything else that you want to tell us?

The Witnesses: No.

