



**LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL
TERRITORY**

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: [Annual and financial reports 2010-2011](#))

Members:

MS C LE COUTEUR (The Chair)
MR J HARGREAVES (The Deputy Chair)
MR B SMYTH

TRANSCRIPT OF EVIDENCE

CANBERRA

FRIDAY, 16 DECEMBER 2011

Secretary to the committee:
Dr A Cullen (Ph: 6205 0142)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

WITNESSES

ACT Insurance Authority	213
Actew Corporation.....	213
ACTTAB.....	213
Independent Competition and Regulatory Commission	213
Totalcare Industries.....	213
Treasury Directorate	213

Privilege statement

The Committee has authorised the recording, broadcasting and re-broadcasting of these proceedings.

All witnesses making submissions or giving evidence to committees of the Legislative Assembly for the ACT are protected by parliamentary privilege.

“Parliamentary privilege” means the special rights and immunities which belong to the Assembly, its committees and its members. These rights and immunities enable committees to operate effectively, and enable those involved in committee processes to do so without obstruction, or fear of prosecution.

Witnesses must tell the truth: giving false or misleading evidence will be treated as a serious matter, and may be considered a contempt of the Assembly.

While the Committee prefers to hear all evidence in public, it may take evidence in-camera if requested. Confidential evidence will be recorded and kept securely. It is within the power of the committee at a later date to publish or present all or part of that evidence to the Assembly; but any decision to publish or present in-camera evidence will not be taken without consulting with the person who gave the evidence.

Amended 9 August 2011

The committee met at 9.30 am.

Appearances:

Barr, Mr Andrew, Deputy Chief Minister, Treasurer, Minister for Economic Development and Minister for Tourism, Sport and Recreation

Treasury Directorate

Smithies, Ms Megan, Under Treasurer

Hays, Mr Tony, Senior Manager, Project and Budget Management, and former Chief Executive Officer, Rhodium Asset Solutions

Actew Corporation

Sullivan, Mr Mark, Managing Director

Carmody, Mr Ian, Director, Water Security Projects

Knee, Mr Ross, Executive Manager, Water

ACTTAB

Curtis, Mr Tony, Chief Executive

Kourpanidis, Mr Con, Chairman

Snowden, Ms Kayelene, Executive Manager, Finance and Business Services

Totalcare Industries

McDonald, Mr Tom, Deputy Chair

ACT Insurance Authority

Fletcher, Mr John, General Manager

Independent Competition and Regulatory Commission

Gray, Mr Malcolm, Senior Commissioner

THE CHAIR: Good morning, and welcome. I formally declare open this public hearing of the Standing Committee on Public Accounts inquiry into the 2010-11 annual reports. On behalf of the committee I would like to thank you, Treasurer, and all of your relevant directorate and agency officials for attending today.

The proceedings this morning will commence with the examination of the 2010-11 annual report of Actew Corporation, followed by the annual report of ACTTAB. After a short morning tea break the proceedings will recommence with an examination of Rhodium Asset Solutions and Totalcare Industries, followed by the annual report of the ACT Insurance Authority and concluding with the annual report of the Independent Competition and Regulatory Commission.

I remind witnesses of the protections and obligations afforded by parliamentary privilege and draw your attention to the blue-coloured privilege statement that is before you on the table. Can you please confirm for the record that you understand the privilege implications of the statement? Thank you. I also remind witnesses that the proceedings are being recorded by Hansard for transcription purposes, and they are being webstreamed and broadcast live.

Before we proceed to questions, Treasurer, do you have an opening statement?

Mr Barr: As tempting as that is, Madam Chair, I will pass on that opportunity. We will go straight to questions.

THE CHAIR: My first questions are about safety issues with the contractors and subcontractors at the Cotter Dam site. Have there been any warnings, breaches or stop work orders on that site?

Mr Sullivan: Yes, there have been. The enlarged Cotter Dam is a very large construction site. So far there have been about 1½ million hours of work done on the Cotter Dam and there has not been a serious injury at the Cotter Dam. I only say that to reflect the fact that I do believe that it is a safe place, a safe environment in what is a very hazardous construction zone. At the same time, WorkSafe ACT has issued a number of work improvement notices. Work improvement notices are notices which require you to modify structure or modify practice. They do not stop work. They have also issued some work prohibition notices. Work prohibition notices mean that you must stop doing that part of that work until such time as it is corrected to the satisfaction of WorkSafe ACT.

Those notices have revolved around two areas of the dam construction. One is in terms of temporary works, probably temporary works which have now passed through, which were around scaffolding, stairs, props and things like that. Certainly, we took heed and welcomed their intervention. It resulted in a complete audit of our safety practices around temporary works and that seemed to bring an end to the issues around the temporary works. The other area was around our crane operations. In respect of our crane operations we have had a number of work prohibition orders because in terms of crane operations you get a work prohibition order almost immediately there is a concern about safety, and that is good.

I think it is important to say that, as a result of each of those work prohibition notices, the requirement has been a recertification of the safety of the crane and that recertification of the safety of the crane has been provided. In no instance was there modification required to the crane before it was deemed to be safe. So it was basically saying, "We need an independent certification that this crane is safe before you can utilise it again." That has occurred on a number of occasions.

THE CHAIR: Talking about cranes, has Actew had any communication with the crane driver who was reportedly threatened for reporting safety concerns?

Mr Sullivan: No. Actew has not been in direct communication other than, I think, we were one of the multiple recipients of some of the emails that he sent, if that is communication. With his employer, where Actew has been involved is that Actew has made it very clear that it will not tolerate action being taken against any worker on that site for raising safety concerns at the site. We are satisfied that no action has been taken against workers on the site for raising safety concerns on the site. Clearly there is a contention from the worker and his union that that may not be the case, and that is currently before Fair Work Australia, brought there by the CFMEU as an adverse action case. So Fair Work Australia will investigate, with the assistance of Comcare, whether there is an issue there for concern.

Our role has been to ensure that the Bulk Water Alliance and the employers involved in the Bulk Water Alliance understand—and I think they understand fully—that no worker shall be disciplined for raising safety issues at the dam. In fact the raising of safety issues at the dam is something that we promote and are proactive in raising, and a number of safety issues are always raised.

THE CHAIR: Can you take on notice the total number of notices you have had from WorkSafe?

Mr Sullivan: I will make that—

THE CHAIR: You mentioned there had been a few.

Mr Sullivan: I will make that an inclusive question because in respect of Actew, WorkSafe have to work out who to send their notices to.

THE CHAIR: Okay, for the site, not for Actew.

Mr Sullivan: I will take it; I will make that as exclusive as I can.

THE CHAIR: Thank you, Mr Sullivan. Mr Hargreaves?

MR HARGREAVES: Thanks, Madam Chair. I will defer to Mr Smyth for the minute.

MR SMYTH: Minister, on page 4 of the Actew Corporation Ltd annual report, I see that we own an 18 per cent shareholding in TransACT Communications Pty Ltd. What does the sale of TransACT mean to Actew?

Mr Sullivan: Let us start very technically and then we will get broader. Technically we were an 18 per cent shareholder in TransACT; therefore we were in receipt of 18 per cent of the proceeds of the sale of TransACT and that resulted in a small profit for us in respect of the holding of TransACT on our balance sheet. So that will be recorded as profit, that gain, and will pass through to the shareholders as dividend in the appropriate time frame.

In respect of TransACT, there have been two very good decisions made. One was to create it and invest in it and the other was to now sell it. I think they were driven to a degree for the same reason. I think it was created to ensure that Canberra did not fall behind in what was then a developing technology space. Clearly the major provider of telecommunications in Australia had determined that Canberra was not a priority at all. So I think a decision that said that the government, through Actew, would form a consortium to create and own TransACT was a very good move.

Today, with respect to a small telecommunications company such as TransACT, owned in great majority by a group of shareholders who did not have a particular interest in its ongoing operation and future—they wished to depart—I think the time for such a small telecommunications company to survive in the market was probably over. I think the biggest job in the sale process was to ensure that it was taken over by

someone who could continue that goal of ensuring that Canberra was not lost in the telecommunications developments that are going on. In iiNet, I think you basically have a company which is one of the fastest growing internet providers in the country; it has signed up to the NBN as a partner and so will engage in the NBN processes. So I think it is almost as good a decision as the decision to create and invest in TransACT was, that many years ago.

MR SMYTH: Did the two shareholders have a say in the sale?

Mr Sullivan: They were consulted but no—in fact, Actew, in the end, had to decide. Technically we did not have a say in the sale. We are an 18 per cent shareholder and as long as two-thirds of the shareholders wish to sell we would be dragged along. So the decision we had to take was whether to be an active part of the sale process or stand aside from it and we decided to become active to ensure that the right result was there. TransACT is on our books as a \$4.7 million investment. We do not have control of the company so we cannot have a controlling interest. It does not fall under any of the top definitions of things that must be approved by the shareholder. I, of course, kept the shareholders informed as to the progress—without divulging the commercial details of the progress—of the sales process.

MR SMYTH: What will Actew reap from the sale?

Mr Sullivan: I think we have received \$4.9 million.

MR SMYTH: So through the shareholders to Actew, we now have no interest at all in the network; it has all gone to iiNet?

Mr Sullivan: I have resigned as a director. I was required to resign as a director of TransACT. John Mackay was required to resign as the chair of TransACT. We have been replaced by the iiNet board. We understand their intention is to continue the TransACT business as TransACT.

MRS DUNNE: The asset which was the fibre optic cable, the switching and whatnot, what was that valued at before the sale?

Mr Sullivan: The entire value of TransACT—I think we were proven to be about right. Various shareholders valued their shareholdings in TransACT at various things. The asset which was the fibre optic asset was based on, basically, its income-producing capacity, not any intrinsic value. So its value was \$60 million, less the other assets of TransACT. It cost a whole lot more. There is probably a couple of hundred million dollars worth of infrastructure which stays in Canberra and will be utilised. Its value was a whole lot less. It had been written down at one stage, of course, to zero. It had, since that time it had been written down to zero, basically rebirthed itself into some form of profitability. That saw our shareholding revalued in 2009 up to \$4.7 million from zero.

We actually approached two other shareholders before it was sold to purchase their shares, both of which rejected us. It turned out that we actually offered them about the price they got—slightly under, which was good commercial sense. It is interesting with these infrastructure companies: is there a replacement value of the infrastructure

provided by that company? Yes, and it is very high. What is the value of that asset? The value of the asset is the commercial value of the asset, and it is quite low. But it will continue to serve because that infrastructure will serve Canberra's internet needs for some time and will be able to produce higher and higher speed broadband, particularly for the older suburbs, which rely on the overhead cable network.

MRS DUNNE: What is the expected life of the fibre optic cable?

Mr Sullivan: In a mechanics sense, you would probably say 20 to 40 years. In a realistic sense, it would be like the copper of Telstra, which has been written off three times and which was sold to NBN for many millions of dollars. They keep finding technology to give this infrastructure new life. I think the fibre optic will be with us for many decades.

MR SMYTH: The Cotter Dam will be with us for many decades. Is it on time and on budget?

Mr Sullivan: The Cotter Dam progresses.

MR SMYTH: So is it progressing?

Mr Sullivan: It is on a time line and it is on a budget line. We have reached a good stage in that it is as high as the old Cotter Dam. Would I like it to be further than that? Yes, I would. We are significantly impacted by weather, and I cannot avoid saying it. November this year had more rain than November last year—200 millimetres. December is another heavy weather month. The bureau tell me—fancy a water person complaining about rain, but it is awful.

My schedule and my budget are under pressure. I am now going through an exercise, over Christmas, with the Bulk Water Alliance, to understand exactly what that pressure is in respect of schedule and budget. I would expect to present that to the board in February and I would expect to make that public and brief all interested parties on it as soon as the board understand the position. They clearly want to understand, if it is under pressure, and have described why it is under pressure and how it is under pressure. That is a very reasonable thing to ask for.

I just need to be very accurate, Brendan, and say that, at the moment, my budget is holding; my schedule is holding. They are both under extreme pressure and I suspect there will be movement, in at least schedule, in February.

MR SMYTH: On page 7 of your annual report you found an undesirable geological feature.

Mr Sullivan: Yes.

MR SMYTH: Was this undesirable geological feature not known before work commenced?

Mr Sullivan: Yes, it was not known.

MR SMYTH: It was not known at all?

Mr Sullivan: No. The geotechnical surveys, it would seem, missed it each time.

MR SMYTH: How do you miss 12,000 cubic metres of undesirable rock?

Mr Sullivan: In that site it is not that hard to miss it. You space these geotechnical surveys. In a perverse way, it is good news that we missed it because the alliance covers the costs of finding it. Had we known there was a very large, unstable geological feature there pre the determination of the TOC, it would have expanded the TOC very considerably at the cost of the owner. The geotechnical reviews—I think the geotechnical reviews have been reviewed on at least two occasions, one by Deloitte and one by the ICRC, and found to have been very competently conducted—did not discover this feature.

Having discovered it, it was the job of the alliance to rectify it. There was some \$10 million to rectify it, which cost the owner five and cost the constructors five. As I say, that is quite perverse. You would much prefer to know about things. That is probably one of the values in the alliance. With the floods of last Christmas, the geological feature and the rains, we went within a metre of the new dam being overtopped. In the rains of a few weeks ago, I know it would have been a very serious issue—to stand on that, to look and see that water coming up and trusted modellers telling me that it was going to stop before it reached the top.

They are the three, by far, most significant issues that we face. The geotechnicals were thorough but, no, they did not discover it. We have done a post-discovery review of the geotechnicals and we understand why the grid pattern used by the geologists did not strike it.

MRS DUNNE: Can you elaborate on what was missing that prevented them from finding this?

Mr Sullivan: I am saying that in terms of the grid pattern used in a number of geological holes dug, they were regarded as being good practice, best practice, and did not find it.

MRS DUNNE: Could I just carry on for a moment, Madam Chair. What did we miss seeing? Is it a deep, narrow fault or what?

Mr Sullivan: No. In your core, when you do geotechnical surveys you are drilling right down, you are bringing a core up and you are hopefully seeing solid rock in your core. If there is not solid rock and you start seeing crumbly clay in the core, you know there is something there. In two samples, I think it is, of geotechnical coring there, one had a slight evidence of shale rock. The one around it did not. So the geologists basically said: “That is okay. This looks stable.”

There is always a fear in a river basin, because that is the nature of a river basin, that you will find flawed rock. That was why the river formed. As one of the geologists kindly pointed out to me, if we had only waited another 100,000 years it would have been okay.

MR HARGREAVES: You are impetuous, aren't you?

Mr Sullivan: Yes. Was the geotechnical surveying thorough? Yes. And I think it has been reviewed twice. Did it discover it? No. Was it then addressed? Yes.

THE CHAIR: Moving on to the M2G project, this is at pages 9 and pages 10, the Murrumbidgee to Googong water transfer. You are looking at, I understand, investing in offsets for the protection of 92 hectares of box gum woodland. What is the area of woodland that you are destroying that is being offset, if that is the correct word to use?

Mr Sullivan: I think I should take this on notice. It is more to do with the project having sought to avoid getting down to individual trees and clumps of trees. Certainly there are some individual areas of Smithsonia and other plants. I will get a nod. I think our offset is about the ratio of 10 to one. It is more complicated. I think we should give you a good comprehensive answer on it.

MR HARGREAVES: Have we got an expert here?

Mr Sullivan: They were affecting 15 hectares.

THE CHAIR: Affecting 15 hectares and you are protecting 92 hectares?

Mr Sullivan: Yes, creating 92.

THE CHAIR: Hopefully you are protecting. You cannot create—

Mr Sullivan: We are protecting a whole lot more than that.

THE CHAIR: I was going to say you cannot actually create land.

Mr Sullivan: No. We create species on land that does not have them.

THE CHAIR: You maybe move species rather than create species.

MRS DUNNE: Propagate, perhaps, rather than create.

Mr Sullivan: And propagate and propagate.

THE CHAIR: I will give you some more questions on notice. I would like to know about the condition of the land that you are creating species on or whatever. Maybe I will move on to—

Mr Sullivan: I can answer. Basically we have taken grazing land and turned it into non-grazing land. Most of the Murrumbidgee to Googong corridor for the transfer is grazing land. And we have purchased a property which was partially grazing land—and that is the primary focus of our offsets—but we then have other offsets around the ACT.

THE CHAIR: And you will be investing money on an ongoing basis to manage this?

Mr Sullivan: Of course.

MRS DUNNE: On the actual footprint of the pipeline itself, that will have to be kept clear of trees?

Mr Sullivan: You will not be able to plant a tree on the footprint of the pipeline.

MRS DUNNE: What is the linear area of the pipeline?

Mr Sullivan: It is inbuilt.

MRS DUNNE: Sorry, it is—

MR HARGREAVES: That is really hard for Hansard to see.

MRS DUNNE: It is how many kilometres long and the reserve which you have to keep is 15 metres?

Mr Carmody: The 40-metre construction easement will reduce to a 15-metre easement along the length of the pipeline. So it is the width of it and the length is—

MRS DUNNE: There will be no trees on that 15 metres?

Mr Carmody: And that is the easement which will grant access to ActewAGL and contractors to maintain the pipeline. And that pipe is about 12½ kilometres long.

THE CHAIR: We might move on to the water restriction review. You said it was going to be finalised in late 2011, which I think would probably qualify as about now. It is pretty late but I think it is still 2011. Where is it up to? When will it be released?

Mr Sullivan: It is in its very final stages of preparation within Actew for referral to the government to make a decision on it. I think we are the ones who are behind and largely that is around consultation with big users. The new scheme envisages a regime for large water users. We are committed to consultation with those large users and that is probably the area where we have taken longer than we thought. I think we will probably move that to government early in the new year, in January. Government, through its department, has had an involvement, a quite intense involvement, in this development but will now have to go through its processes to tick it off. It is the minister's decision as to the scheme, not ours.

THE CHAIR: Minister, have you any idea when we are likely to see this review?

Mr Barr: No not at this point, no.

THE CHAIR: And any idea of the main findings in the review?

Mr Sullivan: I think in terms of residential use we have, in terms of trying to encourage consultation, been putting out ideas around the things that interest people.

There is a capacity to wash their car, when they can and when they cannot. If we have restrictions on watering, should they be dictated in respect of what night it is or should you dictate in respect of just how often you can do it and move the system to a bit more flexibility that way?

In terms of residential, you are not going to see a real lot of change. I think we will see some changes in respect of high-volume water users. And really what we have suggested there is that the needs of a high-volume water user should be expected. We would expect it to be good business to have a water plan in place and for that water plan to exhibit itself against criteria for water efficiency. And that is good business.

THE CHAIR: Mr Hargreaves.

MR HARGREAVES: How is water being delivered to the village of Tharwa? Is it delivered through the main system or is it still being pumped out of the river at Murrumbidgee?

Mr Knee: Yes, it is still pumped out at the waters. We do not supply Tharwa with water. It is still pumped out at the Murrumbidgee.

MR HARGREAVES: I noticed you are delivering water and sewerage infrastructure to Uriarra Village, presumably because most of it was burnt and the infrastructure has badly suffered. So the restoration has augmented that supply rather than reinstated what was there before. Have you contemplated articulating water to Tharwa and if not why not?

Mr Knee: We have not contemplated it because no-one has asked us to contemplate it.

MR HARGREAVES: I might suggest to you that I asked you to do that in 1998 and I am still waiting.

Mr Sullivan: To contemplate, we will check that.

MR HARGREAVES: It has taken a fair while to contemplate it but you get that. Nothing moves quickly in this world. But I am interested in the charging regime for the villagers at Tharwa. If that village, as a rural village, was to take off as an ecotourism spot, I would imagine that the flows through the Murrumbidgee just down from the village might not cope with that kind of influx of people.

I am not sure of what legislative regimes apply, whether we can force the main water delivery system on the villagers at Tharwa or whether they can continue to do what they are doing at the moment. I would imagine if you are not providing it, they are not paying water rates. But the people in Banks who are only about three kilometres away are paying water rates. Further contemplation, I think! I will contemplate it some more.

THE CHAIR: Mr Smyth.

MR SMYTH: I will defer to Mrs Dunne.

MRS DUNNE: Mr Sullivan, could I ask you to reflect on the Murray-Darling Basin draft plan that was released in the last little while and the implications that the current proposal for the ACT would have on our capacity to provide water to the ACT?

Mr Sullivan: I am happy to reflect on that. The draft plan certainly shows a different attitude to the social and human needs of cities in the basin, particularly the largest city, Canberra. In terms of balancing the needs of irrigators and environment, the introduction of also balancing the needs of humans and social needs was important. In saying that, it is also very important to say what a minute part of the plan that then constitutes. If you say, “What is the great debate of the Murray-Darling Basin plan,” it is whether we can save 3,000, 2,750 gigalitres of water. When you are talking about a city whose requirement is around 40 gigalitres of water, we are a rounding error. And we are the largest city in the thing.

To have secured 40.5 is a good short, medium-term solution. I think history says that 40.5 gigalitres will be sufficient for us in normal times for a considerable time. The issue with 40.5, and the fact that there would appear in the draft to be no growth parameters in terms of the water allocation, is that in the longer term 40.5 gigalitres of water will not be sufficient to service Canberra.

Outside of the draft plan, therefore, I am interested in the fact that I see the government is negotiating with the commonwealth over the commonwealth providing funding to purchase water rights and entitlements to secure long-term growth forecasts. If that eventuates I think we have a very good solution. If it does not eventuate we have a policy issue in the medium to long term around whether we secure more water or whether we live within our entitlement, and if we do secure more water how we will secure it. Clearly there is an avenue to secure it, which is a very simple avenue of securing water. But it would be very good if the government succeeded in achieving commonwealth funding for that purchase.

MRS DUNNE: When you say medium to long term, what are you talking about?

Mr Sullivan: I think I am talking 20 years plus. We have got to think about this plan. It does not actually kick in until 2019. I think 40.5 gigalitres—even if we lose our back credits, we can secure new credits—will probably see that go into 20 years or so.

MRS DUNNE: Twenty years from the establishment—

Mr Sullivan: From the establishment of—

MRS DUNNE: From the establishment, from 2019. You would say that by the time we got to 2040 we would be approaching the cap?

Mr Sullivan: We may be. It depends again on all those assumptions around climate, population and others that have gone into our work on water storage. What we see at the moment in Canberra is this: we have infrastructure not far off being in place which will see storage capacity and transfer capacity take us through at least 25 to 30 years. Assuming climate change at around CSIRO 2030 climate predictions, ABS high-level population statistics, achievement of the government aims in respect of the capped water reduction, our water storage needs will be fine.

You look at our water usage over recent years. This last year is an historically low one. In terms of our net use, it is about less than 10 gigalitres of water, but we certainly—

MRS DUNNE: That is mainly because no-one is watering their gardens.

Mr Sullivan: And it rained and we also probably had some of that rain in our sewer systems and running out into the river. So there was probably some fortune in that as well. Against this 40, there is no doubt that we have a different attitude to water. We do have a community which is—we use the term—water wise and I think they are a much more water wise community than we had before.

Certainly in water terms, short term is 10 years or so. After that, we should be fine. Medium term, I think we should be okay. Long term, there certainly needs to be a mechanism to respond to the policy decisions of a government. The government will need to make policy decisions in respect of how much water it wishes Canberra to access. Having done that, there needs to be an operational mechanism to respond to it, and the operational mechanisms are clearly there.

THE CHAIR: I would like in the few minutes left to talk about non-potable water use. Last year's non-potable water use was 16.7 per cent, but the think water, act water target was 20 per cent by 2013, which is not a long way away. What are you planning to do to achieve that increase?

Mr Sullivan: I am not involved in non-potable water; I should be, but I am not.

THE CHAIR: Okay. Then I will move on to—

Mr Sullivan: I think the think water, act water strategy is being revised and I think you have got the ICRC submission and inquiry now into secondary water. Non-potable water is one of the great policy debates that our community must have.

THE CHAIR: You are involved in some non-potable water, to wit, very non-potable effluent. That is where I was going.

Mr Sullivan: All right, yes.

THE CHAIR: I was going to go there. Quantity per head has increased a lot in the last year. Is that simply because we are getting stray water in the sewerage system, or because we are creating more sewage?

Mr Sullivan: I think it is mostly to do with the fact that we made access to it easier. The major point of access to effluent re-use has been at Belconnen and we established in the last 12 or so months a new filling station at the top of—what is the road that goes down Molonglo?

MRS DUNNE: Stockdill Drive.

Mr Sullivan: Stockdill Drive. That has made the access to that reused effluent a whole lot easier. So, while the golf course and the grapevines continue to have their

access to it, we are probably seeing a greater uptake of access there. The Southwell Park plant, no.

THE CHAIR: It is still going, isn't it?

Mr Sullivan: No, it is not really operating.

THE CHAIR: And it is not going to be part of the new regime, the Southwell Park—

Mr Sullivan: It may be, but that is where I am not part of that. I provided Southwell Park with effluent—

THE CHAIR: Yes, I used to go past there every day.

Mr Sullivan: and we do not. We have another station at Fyshwick, the north Canberra effluent. I want to be part of that debate because, one, we price that effluent artificially.

THE CHAIR: Artificially low?

Mr Sullivan: Artificially low; the effluent costs me more than the potable water and therefore you must ask questions.

THE CHAIR: So do you think there is a possibility of getting the cost of the effluent down or is this a bit—

Mr Sullivan: Effluent requires transport and treatment and—

MRS DUNNE: Then you have got to pump it uphill.

Mr Sullivan: And it needs to be—

MR HARGREAVES: And we are pretty good at that, aren't we, ladies and gentlemen—with a fork? I have been doing this for years, minister.

Mr Sullivan: What I am saying is that I think it is a good policy discussion to be had in our community.

THE CHAIR: Are there any other issues that you are thinking of to increase the use of the non-potable water that you have control of?

Mr Sullivan: No.

MR SMYTH: On water quality, on page 15, minister, you want to ensure that epizootic haematopoietic necrosis virus does not get into the reservoir at Cotter. What are you doing to ensure that?

Mr Sullivan: We take enormous measures to ensure that. It is very important, this, to say that this virus does exist downstream of the old Cotter dam, it is not within the Cotter reservoir, and it would affect some of the endangered species in the Cotter

reservoir.

MR HARGREAVES: In what way?

Mr Sullivan: It would kill them.

MR HARGREAVES: That is a really drastic end.

Mr Sullivan: The issue for us is that, in terms of creating a new dam wall 150 metres down, we have to ensure that the space between the old dam and the new dam is sterile. Therefore it was fished out by fishing experts. It was then sterilised. It has been fished again and it will be fished before it is concluded, to ensure that any fish that come from that side of the reservoir down into the river are relocated by us to other parts of the ACT, not back into the dam.

So the dam itself is a great barrier to the virus. It is then ensuring that in the construction of the new dam we do not introduce the possibility of the virus getting into the dam. We cannot stop the virus getting in there if someone did something very silly.

THE CHAIR: Do you have to pay people to fish them out or is this a job that you—

MR HARGREAVES: Ray Blundell and I will go down and sort it out.

Mr Sullivan: I think it is that very clever fishing that anglers cannot do and it is done by electric shock. You then pick up the fish and have a look at them. If they are carp you destroy them and if they are good fish you translocate them, you relocate them. But it is not a few lines going in the thing. You have to ensure that you get 100 per cent of them and it is conducted by the University of Canberra and it is oversighted by a fish steering committee, which is basically academics.

MR SMYTH: Who is on the fish steering committee?

Mr Sullivan: It is a great committee to be on. It is chaired by Professor Mark Lintermans, who is a distinguished professor—fish is serious business—and it incorporates a number of scientists and academics who know their fish.

THE CHAIR: That is very good for the fish.

MRS DUNNE: On the subject of fish, what do we know about the cormorants' diet as a result of this?

THE CHAIR: This needs to be our last question, Mrs Dunne.

Mr Sullivan: We know a lot about the cormorants' diet. I think I have told this; being an accountant I always said that surely the answer to protect the macquarie perch was to shoot the cormorants; but I was told, "No, you can't shoot the cormorants." But we have had a study now of the cormorants and we do understand that the cormorants do eat macquarie perch, so we know cormorants do like fish, and so it continues our

work in terms of fish protection.

We have engaged seriously in the building of fish reef in the new dam precinct and that is to protect these macquarie perch. We are confident that we are going to have a thriving population of macquarie perch in the new dam.

MRS DUNNE: What does the fish habitat cost?

Mr Sullivan: On the fish habitat, in the end, we will probably spend about—

Mr Carmody: A bit over \$2½ million on the rock itself. But we are investing all up \$7 million in the ongoing management, maintenance and research of the macquarie perch in that river system.

MRS DUNNE: So that is more than the rock placement then?

Mr Carmody: The rock placement is a component of that \$7 million.

MR HARGREAVES: The two-spined blackfish populate the tributaries going into the Cotter too, and I was a bit worried at one point that the rising of the level of the old dam would have an adverse effect on that particular endangered fish. Have you guys got some—

MR SMYTH: You really do know the fishing spots.

MR HARGREAVES: You can pick them up with your fingertips. They are very small.

Mr Sullivan: Again the fish group have looked very hard at this and they believe that the rising of the water level will not impact them. They believe that they will be okay. If you are interested, I can get you some material on that fish—

MR HARGREAVES: I am aware that you have done stepping and creating gravel beds, which is the particular habitat of that particular species. I was just wondering whether you would be doing a level a bit more up tributaries or whether it is just not going to affect them? If it is not going to affect them, that is fantastic.

Mr Sullivan: It is not. They are not a major concern.

MR SMYTH: Just very quickly—

THE CHAIR: It has to be very quickly.

MR SMYTH: I have asked you before about access to water spaces for water skiers in the ACT. I understand that Molonglo ridge has been closed again because of a shifting sand bank. I think last time I spoke to you you were going to come back to me and find out whether there were any other spaces in the ACT that Actew controls where water skiing can be undertaken. Have you been able to do that?

Mr Sullivan: I went back to Actew, who said, “You’re crazy.”

MR SMYTH: You are crazy or I am crazy?

Mr Sullivan: No, I am crazy, to even ask. I would never suggest you are crazy, Brendan.

MR HARGREAVES: Let us take a vote on that one.

Mr Sullivan: Actew's recommendation is that Actew-controlled water spaces, being reservoirs, dams and particularly the new Cotter dam, which is in reasonably pristine catchment, not be allowed to be impacted by human activity. Googong is slightly different in that it is a different sort of habitat. It draws in nutrients and other things from all sorts of places and so there is defined human contact with Googong dam in respect of fishing, with electric motors and things like that. I think that is our position and it would be the position that we would put to government and government would have to consider it.

MR SMYTH: So no early Christmas for the water skiers?

Mr Sullivan: No, particularly, I think water skiing is about the end thing; it destroys banks and it would even see the dam wall, the spillway, go over when it should not.

MR HARGREAVES: It frightens the devil out of the macquarie perch too.

Mr Sullivan: And it frightens them, yes; we do not want minced fish.

THE CHAIR: I am afraid we have run out of time, as entertaining as this conversation is. I think there will be some questions that we would like to send to you on notice and, as you know, we will send a copy of the transcript for you to read through. Thank you all very much for your attendance.

Mr Sullivan: Thank you, chair, and I wish a good Christmas to the committee.

THE CHAIR: We now welcome the good folks from ACTTAB. Thank you for joining us. As you were not here earlier can I just remind you about the blue privileges card. I am sure you are all aware of it. For the record can you just confirm that you have seen the blue privileges card and appreciate the implications of it?

Mr Curtis: We do.

THE CHAIR: Thanks. Do you have any opening statement from ACTTAB?

Mr Curtis: No, thank you.

THE CHAIR: In that case we will go straight on to questions. Page 59 talks about the provision of responsible gambling. ANU has done some research, I understand, on this subject for you. I would be very interested to know what has happened with that.

Mr Curtis: The ANU research?

THE CHAIR: Yes.

Mr Curtis: We have not been involved in it. That is the Gambling and Racing Commission.

THE CHAIR: Sorry. I thought you were involved. On page 60, the mandatory fund: how do you interact with that?

Mr Curtis: That was page 60? As the committee is aware, Lifeline was replaced by Mission Australia in recent times. We became part of that process, I think probably about six months ago, and we have had one formal meeting with the representatives of Mission Australia. In recent times—I think as recent as the last week—we have been invited by the ACT Gambling and Racing Commission to become part of a committee. I think it is in effect a steering committee which will determine the distribution of the funding, the moneys that have been contributed to that—I do not know what it is called, but a pool of gambling providers' contributions to that process.

We have all, as I understand it, including Clubs ACT, signed up to that process. From my observation I think we are probably going through a teething period where we are building a relationship with Mission Australia. It is probably not at this stage at the same level that we had with Lifeline. We had a very good working relationship with Lifeline and the counsellors, a one on one relationship with those people and our own problem gambling officer. From what I am told by the people who are involved in that, that is starting to evolve and another meeting is scheduled shortly.

We have sought information from them, including a breakdown of the number of ACTTAB customers that might be seeking those services. They are not able to provide that at this stage, but I think they are working towards that. We are hopeful that the relationship will continue and that we are able to productively contribute to reducing problem gambling in the community.

THE CHAIR: On the subject of problem gambling, on page 59 you are talking about self-serve wagering terminals. Have you considered what impact that is likely to have on problem gambling, whether the individual nature of it is likely to lead to more or less? I am assuming—

Mr Curtis: Yes, we have been through a process of consultation with the Gambling and Racing Commission and they obviously had some concerns about that technology. The actual decision to implement that technology, particularly in our subagencies, was to assist the clubs that are often short-staffed. You have people doing a multitude of tasks and the TAB is just a small part of that.

In consultation with the commission, guidelines were developed and a policy was developed for the rollout of those machines. And we have fairly strict parameters in which the machines are actually positioned within the venue and the supervision and monitoring of the use of those machines. From what I recall, the positioning is within three metres of a counter or service facility which is staffed. They have got to be positioned in such a way that the supervising staff within the facility can see the face of the person that is actually using the machine and monitor, in fact, who is using them and how often they are using them.

There has not been a rapid take-up of the technology. I think we are doing about seven or eight per cent of our retail turnover through those machines. But in places like Victoria and, to a lesser extent, I think, New South Wales, but certainly in Victoria, 30 per cent of the retail business is being done through those machines.

THE CHAIR: Why is it so much higher there? Is it because we have only just started and people are not used to it? Or do they put them in different venues maybe?

Mr Curtis: Yes. It is a bit of an exercise to use them too. It is far more difficult than walking up to a counter and just asking somebody to place the bet that you want or write it out on a ticket. And it will take some time for people to adjust to using that technology. I do not think it is going to be, what we would term, the problem gambler that is going to be using them. It is more likely to be the professional that has probably been exposed to that technology elsewhere in other jurisdictions.

THE CHAIR: Mr Hargreaves.

MR HARGREAVES: No, I do not bet.

THE CHAIR: I do not think you have to bet to ask a question. Mr Smyth.

MR SMYTH: On page 45, in your financial statements, your intangibles go up quite significantly for the period. Is that the cost of the new ITC system?

Ms Snowden: Yes, it is.

MR SMYTH: This is the spectrum system. Was that developed in the ACT or was that something that was bought off the shelf from elsewhere?

Ms Snowden: No.

Mr Curtis: It was purchased from the United States from a company called AM Tote International.

MR SMYTH: And servicing that will not prove to be a problem? It is a system used around the world?

Mr Curtis: Yes. There are very few forms of that pari-mutuel technology in the world and very few companies involved in it. The committee may recall it was a long and drawn-out tender process that we went through to select that technology. But it is used by our major partner here in Australia. Looking to the future, it had always been the plan that we wanted to be self-sufficient and not be connected to anyone in particular in terms of future pooling.

But I think that the way the cards have fallen in recent times it is likely that we will come to some arrangement with Tabcorp, who have been relicensed in Victoria and also hold the licence in New South Wales. We have compatible technology in terms of our future.

MR SMYTH: And does the new technology prevent some of the fraud that occurred with the old system?

Mr Curtis: Yes. The technology is such that the loopholes that were in the previous system have been removed. I do not want to go into the detail of that because those matters are still before the court and will likely go to hearing in the Supreme Court. But the prospects of anybody engaging in that sort of behaviour and being able to manipulate the systems are fairly remote now, I would say. The method that was used required some time delay in things occurring, and those delays are not present in this technology.

MR SMYTH: On page 38, in the notes to the financials, there is a \$50,000 impairment. What is that?

Ms Snowden: That is costs associated with the new betting system and some costs associated with a proposal that we did in regard to the application for the Victorian licence that we wrote off. It is those asset values.

MR SMYTH: What is the split between the two?

Ms Snowden: The majority of that is the costs that were incurred in the Victorian licence. It is about 80 per cent, that value.

Mr Curtis: Could I point out that those matters are not on the public record. ACTTAB was involved in a process of expressing interest in obtaining the Victorian licence. We were in partnership with two other organisations that had contemplated bidding for the licence. We withdrew from that process.

MR SMYTH: It was the cost of looking at whether you would enter into it?

Mr Curtis: Yes.

MR SMYTH: What caused you to withdraw?

Mr Curtis: There are a number of factors that I do not think that we would want to put on the public record. But one of the organisations that we were in partnership with in this exercise was TOTE Tasmania. I do not know whether these matters ought to be heard in camera, because—

THE CHAIR: If you do not feel they should be in public, then please say so.

Mr Curtis: We have signed a confidentiality agreement in respect of those matters.

MR HARGREAVES: And they should remain that way.

THE CHAIR: Yes. Please, do not say anything to breach those.

Mr Curtis: Yes.

THE CHAIR: And we are not asking you to.

Mr Curtis: Perhaps I could summarise it in this way: we were looking to protect ourselves in the event that there were no other options available at the conclusion of our current licensing arrangements.

THE CHAIR: Going to page 81, there are a whole heap of sponsorships, which, all in all, must cost considerably more than what is being spent on problem gambling. Why is it appropriate to spend more money on these sorts of things, in particular possibly some of the sporting things, than problem gambling, which is a charity, you could say, or a cause directly associated with your line of business?

Mr Curtis: Many of these arrangements or these sponsorships are about putting money back into the community.

THE CHAIR: I am not saying that any of them are wrong things to do. I am just saying, in terms of your interest in the community, problem gambling is the sort of negative side of your line of business.

Mr Curtis: It is about getting some balance. We do not walk away from the fact that a small component of those people that gamble or engage in sports betting are or become problem gamblers and that we have some responsibility to deal with that issue. But in terms of what we do here, it is about enhancing our business, building the business and forming relationships with sporting organisations whose activities are part of our business.

I do not know that, as a board, the board were happy about having to spend this sort of money in sponsorships of sporting teams and engaging in advertising of sports betting, but we were forced into that situation by the activities of corporate bookmakers who have advertised extensively nationally on television, free-to-air television in particular, and were eroding our business and that of the other traditional wagering operators, the TABs.

To counter that, we have had to enter into sponsorship arrangements, exclusivity arrangements, because if we did not, those corporate bookmakers based in the Northern Territory and elsewhere would be here doing deals with our major sporting teams and taking those dollars elsewhere. ACTTAB is about the dollars remaining in the ACT. So the partnerships that we have entered into are about building those relationships and ensuring that the dollars that come from the community remain within the community.

That said, I think we can probably do more for problem gambling. We do take it very seriously. In addressing this issue previously with the committee, I have pointed out that we do have staff that are exclusively involved in problem gambling and relationships with the counselling organisations and ensuring that our compliance of the code of practice is met and that all staff are trained in identification of and dealing with the problem. We put a significant amount of money and resources into that and ensuring that we do the right thing and set an example for other gambling providers.

Yes, we could do more. If we determine at some stage that perhaps Mission Australia is not working to the extent that we would like it to or we are not getting satisfactory

service from that, then, I guess we will take it up in the committee that the Gambling and Racing Commission has put together. I think what will come from that too is that if there is more money required to be directed there, then you will probably find that a recommendation will go to the minister from that committee. I do not know whether that has answered the question.

THE CHAIR: I would see if there are any problem gamblers, then, by definition, something more is required to be directed there. Ipso facto, more is required. We know we do have problem gamblers.

Mr Curtis: It might seem like there is some imbalance there, and a significant imbalance, but, as I said, this is more about building the business rather than protecting problem gamblers.

THE CHAIR: Clearly, yes. Mr Smyth.

MR SMYTH: On page 8, the first paragraph talks about the arrangement with the South Australian Lotteries Commission for the provision of keno in the ACT. If South Australian Lotteries sells off their keno operations, which I think is being touted, what happens to keno in the ACT?

Mr Curtis: I can provide an update on that. We have had discussions with South Australia and the South Australian Lotteries Commission. The government there has not actually sold it off. They are retaining ownership but they are going through a tender process where that activity will be conducted by a private organisation that will probably pay a licensing fee. But we have had a number of discussions with them over recent months, as a result of which we have now executed a new agreement for a further two years.

MR SMYTH: And beyond that, who knows?

Mr Curtis: Ordinarily, these agreements are only for a two or three-year period. But they have built in a protection there so that it will not matter who performs the role in South Australia, the service will still be provided to the ACT through ACTTAB.

MR SMYTH: You will not have it there, but page x of the ICRC's report talks about the emergence of a national wagering market and certainly pages VII through XI talk about some of the various things that are happening. What is the future of ACTTAB, and how are the changed arrangements affecting you? Are you feeling that you are in a stronger position than you were, or is the position of ACTTAB under threat?

Mr Curtis: Do you want to answer that, chairman?

Mr Kourpanidis: What I can say is that the market is not going to get any weaker by way of the competition that we face. The task that ACTTAB will face in the years going forward can only be harder than in the years that have gone past. It is just a fact of life. There are more players out there chasing the same customers. Technology wise, we are in a good position. The new betting systems and the technology that we have rolled out through our outlets, branches and agencies at least put us on equal footing with our competitors, whereas in years gone by we were not able to offer the

same level of service. So in that respect, we are in a good place.

But we are going to always have the competition that comes from being the smallest player or the smallest fish in the pond. That, I think, in time will probably lead to certain decisions about how the business should best be run going forward. I would even venture to say that the time will come when we will probably either be taken over partly or wholly by a bigger player. And I do not think that is a secret. I think the board would be all of that view, that the time will come when that will probably have to happen.

MR SMYTH: Minister, what is the government doing to support ACTTAB between now and that potential time?

Mr Barr: That potential time may be sooner than we think. We have received unsolicited offers from time to time, and I note TOTE Tasmania has—

MR SMYTH: Is the government actively considering selling ACTTAB?

Mr Barr: Yes.

MR SMYTH: There was a commitment before the last election that there would be no asset sales this term.

Mr Barr: That is correct.

MR SMYTH: So there will not be a sale before the election?

Mr Barr: No.

MR SMYTH: Is that what you are saying?

Mr Barr: Yes.

MR SMYTH: What is driving the government's consideration of selling ACTTAB?

Mr Barr: You have just heard that circumstances are changing, and changing quickly. So we have to consider those options.

MR SMYTH: And what are the options?

Mr Barr: Sale.

MR SMYTH: How urgent is the problem that we face, being the smallest fish in the pond? And should the government be taking a more proactive stance, if it has to sell, to maximise the value of what it would get for ACTTAB?

Mr Barr: Those matters are under active consideration. But the time frame, I suspect, is not in the 2012 calendar year but may be in the not too distant future beyond that. But there is further work that obviously has to be done. And there needs to be an offer.

MR SMYTH: So who is doing that work? Is ACTTAB doing that work or is Treasury doing that work?

Mr Barr: I think there are a number of people who have interest in that.

MR SMYTH: And they would be?

Mr Barr: You have mentioned two.

MR SMYTH: Are there any more?

Mr Barr: The Chief Minister's area as well. It is a matter that government will need to consider.

THE CHAIR: In the event of a sale, would you imagine there would need to be any regulatory changes to ensure better protection or equivalent levels of protection in terms of problem gamblers?

Mr Barr: That would be a matter you would need to address to the relevant minister. I am not the gaming and racing minister anymore.

THE CHAIR: No, you are not. As this has come up, presumably one of the considerations—

Mr Barr: It would be amongst many issues that would sit with the regulator, not with me as Treasurer.

THE CHAIR: Appreciably true, yes.

Mr Curtis: Whoever held the licence would still be required to comply with the legislation as it stands now. There is a mandatory code of practice that requires the operators to do certain things. I would envisage that would not change under any circumstances.

MR SMYTH: You have your own stand-alone act, though. Does the act have to be amended?

Mr Kourpanidis: Are you referring to the TOC act?

MR SMYTH: I am asking the question: do you have your own stand-alone act? Is there an ACTTAB act?

Mr Curtis: There is the Betting (ACTTAB Limited) Act.

MR SMYTH: So that would have to be amended to allow a sale?

Mr Barr: The Assembly would have to approve, ultimately, any sale, yes.

THE CHAIR: Thank you very much. We will break for morning tea. We will send you a copy of the transcript. I do not know if there are any questions on notice, but

you never know your luck.

Meeting adjourned from 10.43 to 10.58 am.

THE CHAIR: We will reconvene. Rhodium is now our subject. I have my usual question: are we there yet?

Mr Hays: Absolutely; all done and dusted on 19 June. So the company is now deregistered.

THE CHAIR: Great. And there was quite an amount, eight-hundred-and-something thousand, on Maximus; am I right?

Mr Hays: In?

THE CHAIR: In the last financial year, on consultancy fees. Is it about that?

Mr Hays: I thought it was about \$640,000.

THE CHAIR: Well, it is not a huge difference. What did we get for that?

MR HARGREAVES: It is 160 grand.

Mr Hays: Maximus continued to manage Rhodium in the months from July to September, and they were also involved in October in preparing the completion accounts, which were audited by the Auditor-General's Office.

THE CHAIR: Okay. Mr Hargreaves?

MR HARGREAVES: No, I am glad to see it has all gone. Well done.

MR SMYTH: If it is all done and dusted, are there any legacy issues that need to be addressed?

Mr Hays: We have some debtors which have been assigned to Treasury. Most of those are on repayment plans. We still have a small number that are subject to legal proceedings.

MR SMYTH: The last dot point on page 417 says there are 45 Rhodium debtors; 33 went to Treasury and 12 were finalised by Rhodium. But if you go to page 452, it says that payment plans are in place with an average amount per debtor of \$5,967. If you divide that into the \$155,000, it only comes up with 26. So can we have a breakdown of how many debtors there actually are, who is controlling them—

THE CHAIR: What page is that?

MR SMYTH: 452, second-last paragraph.

Mr Hays: We now have 26 debtors who are on repayment plans.

MR SMYTH: Okay.

Mr Hays: There are seven that we are still pursuing in terms of—

MR SMYTH: So there are 26 in Treasury on payment plans and seven you are pursuing.

Mr Hays: Yes.

MR SMYTH: What is happening with the 12 debtors—and 12 were finalised by Rhodium?

Mr Hays: That is right.

MR SMYTH: That is all finished with?

Mr Hays: Yes.

MR SMYTH: So the ones that have not been finalised, what will happen there? We will just continue to pursue them?

Mr Hays: That is right. We are continuing to try and find where those people are. Some of them have gone missing. Some of them are still subject to some legal action, and some of them inevitably might be written off if we do not succeed with the legal case or if we are unable to locate them.

THE CHAIR: Talking about being written off, has Treasury got any idea of how much Rhodium has ended up costing Treasury or the territory? And, by the way, it was \$824,000. It is on page 428, the Maximus contract. My question is: do we have an idea of how much Rhodium has ended up costing the territory?

Ms Smithies: I am not sure we have got the figures with us on hand, but I think we did give a reconciliation at the time that the company was wound up which related to the amount of money that was paid from the restructuring fund to wind the company up. Other than that, the company did not cost the territory anything, and, indeed, the arrangements put in place saved the territory as we moved through the wind-down process in relation to reduction of fees on car leasing.

When Rhodium existed, it existed as a territory-owned corporation, and its activities were recovered by those who leased equipment and cars from the company. In that case it did not cost the territory anything. It was wound up because of the risk, and those risks were crystallising, and, as I said, we did have to actually pay some money in terms of restructuring and the various sales processes. But, at the end of the day, it was the least cost or savings option, from memory.

Mr Hays: That is right.

MR SMYTH: Having provided those numbers before, can we have a—

Ms Smithies: I am pretty sure that we have.

MR SMYTH: Yes, can we have an update and a final?

Ms Smithies: They will not have changed, but we can get them again.

MR SMYTH: Good, all right.

THE CHAIR: Did you do a cost-benefit analysis over the last few years? Every year we have come along and you have always spent—I think this is the cheapest year on Maximus. It has usually been several million dollars on Maximus, keeping the show running. Did you actually do a cost-benefit that we were recovering enough to be worth keeping the business going, compared to the option of saying, “We’re all over it; it’s not worth pursuing”?

Ms Smithies: The general history around Rhodium was that, as a government business, it was heavily into the leasing or individual leasing business. The government decided that it was not cost effective, and that was why the government wanted to sell. In terms of cost effectiveness, it was really around the fact that there was a lot of residual resource still being held by government, particularly in a business that was becoming more and more marginalised with changes in commonwealth arrangements in relation to access to novated lease products. That work was done through the process.

Going back to the issue of Maximus though, I think we have done this before, but we can do it again. Maximus was managing the company through what was a protracted wind-down period, and it was protracted because the sale hit the market at about the same time as the global financial crisis. There were a number of reasons why we were contracting to Maximus to actually run the company. A lot of it had to do with the fact that you could not put a stable management structure in place that was with the company while there was so much uncertainty as well. So the arrangements with Maximus were a commercial arrangement between the board, and those were subject to board approval with board scrutiny. But I am sure that we have done some answers on these before.

Mr Hays: Yes, we did some analysis around options for trying to either retain the company until all leases had matured or arranging for someone to manage the company on the territory’s behalf, trying to dispose of the leases, and the upshot was that it was slightly beneficial to dispose of the leases. Some of them were transferred to TAMS and some of them were sold to Toyota Fleet Management, and some of the residual issues such as the debtors are being managed in house by Treasury.

It is also the case that Rhodium, as a result of the fleet business that was transferred from Totalcare, was charging about \$197 per vehicle per month compared to the market rate of about \$25 per vehicle per month. That contract has been outsourced, and the savings that have been achieved from that mean that we have now, if you like, overcome the losses that have been incurred by Rhodium.

MR SMYTH: At the bottom of 411, there is a capital redistribution of almost \$48,000. What is the reason for that?

Mr Hays: That was the cash remaining in the company after it was deregistered, so it was just a case of repaying it to the territory.

MR SMYTH: On page 453, there is your statement of receivables. There are a couple of hundred thousand dollars that are considered impaired. Will they, or when will any of those, be written off?

THE CHAIR: Do you need to take it on notice?

Mr Hays: I will take that on notice.

MR SMYTH: On page 417, a number of the leases excluded from the sale were transferred to the territory. Is that the fire appliances?

Ms Smithies: We transferred the TAMS fleet, so the heavy vehicle fleet.

Mr Hays: Yes, and we also had some assorted bits, side lifters, I think—

Ms Smithies: Rock crusher.

Mr Hays: Yes, a rock crusher.

Ms Smithies: Kitchen equipment, yes.

Mr Hays: There was not a lot of interest out there—

MR SMYTH: So these are just the odds and ends that would not go to a normal fleet manager?

Mr Hays: Yes.

MR SMYTH: Thank you.

THE CHAIR: Thank you very much, Rhodium. There were some questions taken on notice. We will now move on to Totalcare. You know the question we are going to ask, I assume: how much longer will Totalcare be with us? Every year we go through this—it is about to be wound up—and you come back again.

Mr McDonald: I have good news. Effective next week we will be asking the board to approve a resolution to deregister the corporation. We are on the ASIC time clock now. We have resolved all outstanding superannuation matters. There are three which are in settlement rotation. That means the member, or the former employee, has signed the settlement deed, I have signed the settlement deed, and the deeds are circulating among superannuation funds ARIA and ComSuper.

The total amount of money we will have paid out on these settlements will be \$9,678,450.28 against an original estimate of \$17.2 million. We expect the corporation's existence to end formally—when you are on the ASIC time clock you have to wait for them—in legal terms, two months, probably, from the early part of next month. For all intents and purposes, once the shareholders accept the board's

resolution then the time clock can start in earnest.

THE CHAIR: Congratulations.

Mr McDonald: Thank you.

THE CHAIR: Any other questions?

MR SMYTH: Minister, on page 3 the second-last line says, “Totalcare will continue to exist until all of its outstanding liabilities are acquitted.” Are all the outstanding liabilities acquitted? On page 7, in the top paragraph, it says the remaining settlements are almost completed. Can we assume that by the date you have just nominated all the remaining settlements will have been completed?

Mr McDonald: Yes. Mr Smyth, as you are aware, the annual report is a financial year report. I was hoping to provide the committee with up-to-date information, at least effective as of the 13th of this month. Statements made by the board in the annual report, of course, are superseded by the statement that I made today.

MR SMYTH: On page 18 I see that reimbursements for superannuation are about \$4.37 million, yet payments for superannuation are \$4.122 million. What is the difference?

Mr McDonald: It is to do with the nature of accounting in relation to the actuarial calculations on particular amounts that have to be paid, amounts that have to be transferred to ComSuper and amounts that have to sit in trust. It is merely a book entry.

MR SMYTH: I am done.

THE CHAIR: As there are no further questions, congratulations on the soon to be successful conclusion of the operation.

Mr McDonald: Thank you, chair.

THE CHAIR: I guess we will permanently have no more questions because—

MR SMYTH: We will see.

THE CHAIR: No, next time they will not exist.

Mr Barr: There will have to be one more annual report.

Mr McDonald: One more annual report for a part year.

THE CHAIR: Thank you very much. We now go to the ACT Insurance Authority, including the office of the Nominal Defendant. On page 9 you say the public liability arising from the 2003 bushfires remains outstanding as legal action continues in the ACT Magistrates Court. The territory has a settlement with all but one of the plaintiffs, a group collectively known as the Stacks plaintiffs. Presumably this is a small amount

of money, given it is at the Magistrates Court. How long do you think it will be before all of this is over and the unfortunate people have finality in this?

Mr Fletcher: The bushfire matter concluded in court several weeks ago.

THE CHAIR: Good.

Mr Fletcher: Justice Higgins made it clear to the court that it would be unlikely that he would reach a decision quickly. I think that it will take, given other things that we have seen going on in the court, at least 12 months for him to reach a decision.

MR HARGREAVES: You cannot rush these things.

Mr Fletcher: It is a complicated case. The amounts in question are not really small.

THE CHAIR: Did you say “are” or “are not”?

Mr Fletcher: Are not.

THE CHAIR: They are not small.

Mr Fletcher: The claims from the plaintiffs that have been involved in the claim have been substantive. I think the authority started with a reserve on the claim in our books of about \$100 million when we kicked off. That has now reduced to about \$70 million, I think. That is not my expectation of what the territory will end up paying if it is found liable to pay. Our assessment of quantum is a number way less than that, but it will still be—and I suppose it depends on the scale: what you think is large and what is small—a substantial settlement, perhaps.

THE CHAIR: Mr Smyth.

MR SMYTH: In the overview, A.2, I note the comment about the increase in ordinary claims costs. Then it goes on to refer to the lower than expected ordinary claims expense. What do those two statements mean, and why are costs increasing and expenses decreasing?

Mr Fletcher: In terms of the first paragraph, “Despite increases in ordinary claims costs,” it is really an overview statement about the status of the fund and where our claims liabilities are. We still are only a very young fund. We have long-tail claims that are medical malpractice claims and public liability claims and they take time to develop.

In terms of the operating result and where we ended up this year, our ordinary claims expense is lower in the 2010-11 year as a result of a couple of things—the actuary’s assessment of the number and quantum of small claims in medical malpractice and public liability. In the big picture we have liabilities that are evolving as claims evolve and reserves are adjusted. In this year we have a claims expense that is less than we forecast in our budget.

MR SMYTH: What is the difference between an ordinary claims cost and an ordinary

claims expense?

Mr Fletcher: I suppose it is just a different set of words. It could be ordinary claims costs or reclaimed expense. “Expense” relates to this particular recording period, 2010-11.

MR SMYTH: In one sentence you are saying, “Despite increases in ordinary claims costs,” and then you are saying, “Despite a lower than expected ordinary claims expense.”

Ms Smithies: It is an issue of timing—the cost of a claim over the life of a claim, isn’t it?

Mr Fletcher: Yes, it is a timing issue. It is about what happened in the reporting period in terms of the expenses and what we paid out and what the actuary has anticipated in terms of the insurance year. In the longer term, in terms of the total claims liability for the territory, which is a different issue; it is a larger—

MR SMYTH: So one is the life of the claim, which might be many years?

Mr Fletcher: Yes.

MR SMYTH: Whereas the second paragraph refers to the expense this year?

Mr Fletcher: Yes.

MR SMYTH: It is an interesting way to state it.

Mr Fletcher: I agree. It perhaps could have been written better.

MR SMYTH: On page 9 you talk about the reinsurance market and you note that it is hardening. What is likely to happen there? Have we got full reinsurance?

Mr Fletcher: We have reinsurance.

MR SMYTH: How long is that for?

Mr Fletcher: We renew our reinsurance program every year. It kicks off in September, when we try and make an early assessment of the market and of the territory’s needs. We then go through an advisory board process in November and March to go to the Australian and London insurance markets in April-May to then place a program for a 1 July start. The four key reinsurance arrangements are medical malpractice, public liability, what should be called a property policy in layman’s terms and directors and officers cover.

Within those four classes of insurance the most pressure at the moment is on the property reinsurance cover. That is due to a whole range—pick a natural disaster around the world, but particularly ones in our region, New Zealand and Queensland. They are putting an awful lot of pressure on property underwriters.

For the 2010-11 period we managed to maintain our reinsurance premium for property. There was a slight increase in the premium we paid, but we also added assets to the property that we covered off, so the rate online was about the same. At the start of the process we started talking about increases—that they could be 20 or 25 per cent. At the end of the day I think we probably paid about 10 per cent, but a lot of that was because of additional assets. We basically maintained what we had the year before.

I do not know that we are going to be that lucky next year. I think the market will start to shift. It is probably fair to say that the property market has been driven down for quite a few years and they would say they are pretty much at rock bottom. But we continue to put a program out there that encourages competition particularly between Australian insurers who like us as a client. We have a number of the large reinsurers who would quite happily lead our property program, which means they basically set the rate and the rest follow along. We will do our best again in April-May next year and see where we end up.

MR SMYTH: The next paragraph says:

That said, the portfolio is extremely volatile given the heavy bias towards liability risks.

What does that mean exactly?

Mr Fletcher: I am sorry; I did not catch the last part of the question.

MR SMYTH: What does “the portfolio is extremely volatile given the heavy bias towards liability risks” mean?

Mr Fletcher: Medical malpractice and public liability are always volatile because they are long-tail claims. They take a long time to resolve. Also, sometimes it is very difficult to try to make an estimate of claims reserves.

Property is easy. It burns down, you know what you have lost, you make your claim, you rebuild it and away you go. I think about 80 per cent of our claims fit into that long-tail liability class. Because of the way those claims develop, particularly large claims, it is very volatile. You may have a claim that comes on as a letter from a solicitor that says, “I represent a person who suffered a loss,” and there is a two-paragraph description of what that loss is. You have to try to make an assessment in terms of reserve. As time goes by and the claim develops, you get more and more information about the nature of the claim and get an understanding of where you might end up in terms of quantum.

Medical malpractice claims, in particular, can very quickly go from being classified as a small claim, which would be less than a million dollars, into the large claim category, depending on what you start to unearth as you go through that process with the plaintiff. That causes volatility.

MR SMYTH: Another comment on page 9, fourth from the bottom, says that you will work with selected agencies to reduce the number and severity of incidents and

ultimate claims costs. Who are the selected agencies and how were they selected?

Mr Fletcher: That is really a question about our risk management activities. It says “selected”. Why it says “selected” is because we try to target, in particular, those agencies that generate the insurable risks: ACT Health, obviously everything there now; Territory and Municipal Services, an awful lot of the PL stuff; JACS. We talk to education a lot about property risks and to Housing about property risks. We try to work with them to basically improve their work practices and their business arrangements to reduce the number of incidents that they might have as part of doing their business, and then obviously that leads to reducing the number of ultimate claims and claim costs.

MR SMYTH: On page 71, in the last use of the word “outcome”, it says that ACTIA will continue to work with key agencies to analyse claims data and develop strategies. There is “key” and “selected”. Is it just a different word? Is it the same group or is it a different group?

Mr Fletcher: You will see that on the performance side of things, I think we nominate four agencies as a target. We work with way more agencies than that. Because of the limited resources in our office we try to allocate out agencies to different risk managers and we then try to focus our attention intensely on a particular group of agencies in one year and then cycle to the next lot.

Some take care of themselves to a certain extent just because of their size. An agency like ACT Health has dedicated risk management people, and obviously the hospital system has dedicated quality and risk management people. They tend to not need a lot of help from us. It is actually probably some of the smaller, mid-sized agencies who may have a corporate manager or a business manager who does about 10 things, one of which is risk management, that we try to support in what they do.

MR SMYTH: I refer to page 10, the second column, the first dot point under “Risk management”. I note there was an article in the *Canberra Times* last month that you had done a comprehensive risk profile. Is that report public?

Mr Fletcher: It should be. It was part of a freedom of information request that we received from the *Canberra Times* and processed.

MR SMYTH: That would be on the FOI site. Under your risk management on page 10, the first dot point mentions that one of the risks is inadequate cash reserves within the authority. Is that currently the situation or is that a potential risk?

Mr Fletcher: No, it is just a risk that obviously is a risk to the fund. We treat that risk by engaging professional actuaries who provide us with advice about our liabilities and what our subsequent premiums should be to have sufficient cash reserves to deal with our claims. Those actuaries are then peer reviewed by another actuary.

MR SMYTH: The last dot point in that section mentions in the middle sentence that there is also the possibility that reinsurers may withdraw cover previously agreed. Are they not bound contractually, or is there a “get out of jail free” card for the insurers in the contracts we have signed?

Mr Fletcher: No, I think you need to read that in the context of the first sentence, which is a reference to the data that we provide to reinsurers.

MR SMYTH: If you do not provide the data accurately, they can renege.

Mr Fletcher: Yes, they will back off us as a risk, whereas we spend a lot of time and effort making sure that we get good notifications about claims and incidents and we understand our risk profile so that when we go to the reinsurance market we can communicate to them, they understand what our business is about and consider us a good risk, which is basically what you want the underwriter to do. They deal with lots and lots of different proposals. They have lots of opportunities to place their capital. What you want them doing when they pick up your proposal is remembering the presentation that you gave them and putting it in the “this is a good risk” pile rather than the fly-by-nighters whom they might see.

THE CHAIR: I have a Nominal Defendant question, given you are part of that. On page 106, you have got some tables of your actuarial assumptions. I notice there is a significant change in your expected claim frequency per thousand vehicles. It is the top line. In 2011 you have got 0.155 per thousand, whereas in 2010—

Mr Fletcher: Which page?

THE CHAIR: It is page 106, the top line.

Mr Fletcher: I have got it.

THE CHAIR: Why is there such a significant change in claim frequency?

Mr Fletcher: I am not sure that that is such a huge shift. That is 0.1 claim per thousand vehicles—not one claim, not two claims per thousand but 0.1. I would have thought—

THE CHAIR: Yes, but if you take it as a percentage of the numbers, it is. There is no particular—

Mr Fletcher: It is not a particularly significant change in the frequency of claims there, I do not think.

THE CHAIR: I was wondering whether it was something around better enforcement so that there are fewer people uninsured. That was where I thought it was. Now we have the police looking at number plates, maybe you were actually getting fewer people driving uninsured.

Mr Fletcher: No, the impact of those arrangements is actually on the financial side where the fund is actually receiving more revenue from fines and from unregistered vehicle permits. The fund is paid that revenue by the courts.

THE CHAIR: I did not realise that. I assumed it just went into consolidated revenue.

Mr Fletcher: No.

THE CHAIR: I guess it makes sense.

Mr Fletcher: It used to. I think the legislative change in 2008 means that those funds are now diverted into the Nominal Defendant. My understanding is that with the unregistered vehicle permits, we are the insurer. So, in fact, we are being paid a premium rather than anything.

THE CHAIR: That does make sense.

Mr Fletcher: And then the fines come out of the court system.

THE CHAIR: And you have got a slight increase in claims size this year compared to last year. Is that just general inflation or a particular disaster?

Mr Fletcher: No, it is not a particular concern, I do not think. This, in the same way, is a very small pool of claims. There are only 80 open files. So it is fairly volatile too in terms of what can happen, but on the claims side of things. You might get a motor vehicle incident that involves multiple claimants, and that can immediately add several million in terms of that potential reserve on those claims. I think we have one claim at the moment in which there are a total of 17 plaintiffs who are making a claim against that particular incident.

THE CHAIR: How sad.

Mr Fletcher: There are a couple involved in the cars, there are some dependants, there are some witnesses. That can very quickly mean that our liabilities increase or, alternatively, when we settle one of those claims for less than we reserved, we realise the liability is a lot less.

THE CHAIR: And have you had anything to do with the development of the compulsory third party bill?

Mr Fletcher: No. I have been a casual observer.

THE CHAIR: Mr Smyth.

MR SMYTH: Just on that, have we received the government's report yet on CTP?

THE CHAIR: No, we—

MR SMYTH: We have got the Treasury here. Have we got the government's report on the CTP, which is of interest to the committee in another role?

Ms Smithies: No, you have not. It is not finalised yet, though.

MR SMYTH: When are we likely to receive it?

Ms Smithies: It is still within the time frame. It will be finished early January for the

government. And it is due to be with the Assembly in the first sitting of the Assembly.

MR SMYTH: The Chief Minister, when she had coverage of that, indicated that we would have it very quickly, in October or November. And the committee has to report on CTP—

THE CHAIR: She did. We have to report in March, yes.

MR SMYTH: It does not give us a lot of time to do our work.

THE CHAIR: Yes, we have a real interest in this one.

Mr Barr: So we have gathered.

MR SMYTH: On pages 86 and 87, where it talks about CTP, I want to make a comment on the charts. There are two charts on claims, and they talk about “accident year”. I thought we had moved away from the word “accident”, and we were not describing them as motor vehicle accidents anymore; in fact we are describing them as crashes, to take out this notion that it was some sort of accident when most are caused by human error. I suggest that you might want to change it to “crash year” rather than “accident year”.

Mr Fletcher: Probably even a better reference is “insurance year”.

MR SMYTH: “Insurance year” for your purposes?

Mr Fletcher: Yes.

MR SMYTH: You mentioned in the last answer that 17 other claims had been received. Is that the difference between the 63 claims that are noted on page 115 and the 80 open claims that are on page 86?

Mr Fletcher: They are point-in-time numbers. Sixty-three was, I think, at 30 June 2010 and 80 is at 30 June 2011. You do not just subtract the two to work out how many additional claims have come on, because we have a lot of files that open and close.

MR SMYTH: Page 12 refers to the authority’s financial position. I notice that 64 per cent of your assets are in short-term investments. Why are 64 per cent of your assets in short-term investments?

Mr Fletcher: Sorry, is that on page 12?

MR SMYTH: Page 12, the little green graph.

Mr Fletcher: I think it is because they earn a better return. I could not be sure. I could take that on notice.

MR SMYTH: It says on page 41 in note (a):

The Authority is endeavouring to increase funds invested in order to meet the cost of future claims.

Mr Fletcher: Yes.

MR SMYTH: Given long-term investments, and that a lot of these have long tails on them, would they not be better off in other investments rather than short-term investments, which is probably normally cash or cash equivalents?

Mr Fletcher: That is why I think it earns more—

MR SMYTH: It is earning more at this stage?

Mr Fletcher: in the short term.

MR SMYTH: Earning more at this stage?

Mr Fletcher: Yes. I know that we have three accounts. The Commonwealth Bank account is an operating account. That is short-term investments and a long term. I know that we move cash in and out of a very low balance in that Commonwealth Bank account. It is really just to meet the cost of our payments. With the short-term one, I have heard comments in my office from our finance people that we get a better return out of that than we do out of the long term.

MR SMYTH: That is a reasonable answer.

THE CHAIR: Thank you very much. We will now move on to our last agency for the day, ICRC. Thank you for joining us. As you were not here earlier, I have to make sure that you are aware of the blue privilege card and the obligations and protections under it. Could you confirm that when you have had a chance to look at it?

Mr Gray: Yes.

THE CHAIR: Thank you. Do you want to make an opening statement?

Mr Gray: No, thank you.

THE CHAIR: I understand the commission has been given the role of advising the ACT government on the measurement of greenhouse gas emissions in the ACT. That was part of the 40 per cent legislation. What work will this involve and what will you give the government as your outputs?

Mr Gray: The work we have been given involves two separate tasks. One is to advise the minister on appropriate methodology for measuring greenhouse gas emissions in the ACT and the other is to then conduct the emissions inventory for four years starting with 2008-09. The initial advice to the minister on the inventory methodology went to him and he duly determined the methodology, and we have completed inventory for the first year for which we were asked to complete the inventory, and all those documents have been tabled in the Assembly. We now go on and do a subsequent three years under our service-level agreement with the department of

environment and sustainable development. At the end of that period they will take a look at our performance and decide whether they want to use us more, I suppose.

The methodology itself, though, is not a one-off exercise. We are going to keep the methodology under review because there are substantial changes occurring, in terms of both commonwealth and territory policy and technological developments in the generating, distribution, transmission industries, which mean that a methodology which might be good in one year is not necessarily going to be equally apt in another year. So, as we commence the next inventory, which we propose to start in the early part of next year, the first task will be to review the methodological advice we gave the minister this year.

MR SMYTH: On page 5 of the report, it has got the organisational structure at 30 June 2010 and then 30 June 2011. We used to have one senior commissioner part time. Now we have got a senior commissioner and two standing commissioners. Is there a reason for the increase in the number of commissioners?

Mr Gray: That organisational structure as at 30 June 2011, Mr Smyth, was very much transitory. There was a period between 1 March 2011 and Easter 2011 when the existing senior commissioner, long-serving Senior Commissioner Baxter, was still in place. He took leave effective from Easter of 2011 and formally left the position on 30 June 2011. There was an overlap where Commissioner Buckley and I served jointly with Senior Commissioner Baxter. Upon Senior Commissioner Baxter leaving, I have become senior commissioner and we are now operating with a senior commissioner and one standing commissioner, Commissioner Buckley. I gathered from discussions with the minister at the time that it was thought that the workload justified having two commissioners.

MR SMYTH: That is a reasonable answer. The staffing structure at 30 June 2010 was what looks like six full-time equivalents, although one was on leave. The new structure would seem to have eight FTEs. Is that also to reflect the increased workload?

Mr Gray: In part, and also in part transitional arrangements. Since 30 June 2011 the commission has succeeded in securing upgraded classification for its CEO to an SES officer. There are consequential changes in the structure below. Essentially what we are doing is tuning the staff profile to the work that sits in front of us. At the moment we have three references running, and that is demanding a lot of resourcing.

THE CHAIR: On page x, which is the second page of what Mr Smyth was talking about, the fourth paragraph down begins, "The commission observed some community puzzlement." That, of course, demands a very leading question.

Mr Barr: Note, future language to be more—

THE CHAIR: Probably, yes. What work is the commission doing? I quite appreciate why the community did feel confused that you use less and pay more. What do you think can be the long-term outcome in terms of water pricing that does not leave the community puzzled?

Mr Gray: Perhaps the commission has been too honest.

THE CHAIR: We are in favour of honesty; go for it.

Mr Gray: I think the puzzlement related in part to the fact that what we were doing at that time was conducting a mid-term review, which was intended to be a brief readjustment of prices in the midst of a five-year regulatory period. So the commission did not engage in a full-blooded consultation process with the community, nor did it issue an extensive report.

What we are now doing—and one of the references I mentioned in response to the question from Mr Smyth—is a full-blooded five-yearly regulatory period review of regulated water and sewerage services. Through that process there will be substantial engagement with the ACT community and the production of a full report on those services. Hopefully, through that process, we can lay out what are the factors driving water prices over that period for the community.

THE CHAIR: You are currently doing an inquiry into secondary water use. Is that part of what you have just been talking about?

Mr Gray: No, it is a separate reference. There are two separate references that we have been given by the Treasurer. One is into secondary water use. That followed from the passage through the Assembly of a motion asking the government to give a reference to the commission. The second reference is a standard reference. We have been on a five-yearly cycle of reviewing regulated water and sewerage services for some time now.

Because those two references go to some issues which have strong interaction and overlap, we have taken the unusual step—I think it is an unprecedented step—of issuing a context paper as the first document that we have put out which covers both references and attempts to provide a common framework in which the two sets of issues in the references can be brought together and their interactions seen. We are obliged to report on the secondary water reference by the middle of next year, whereas the main water reference runs well into 2013.

THE CHAIR: That context or issues paper I think makes the point that because the ACT operates on a net diversion limit from the Murray-Darling Basin that has implications on water recycling initiatives. Can you talk a bit more about water recycling?

Mr Gray: What the coverage of the Murray-Darling Basin plan does for the ACT is constrain the net extraction that we are allowed to take from that water shed, from that large catchment area. That means the amount of water we take out of the river system at one end, less the amount of water we put back into the river system at the other end, is the quantum that is constrained. At the moment the constraint is 40 gigalitres. The ACT's net extraction is well under that. What has been foreshadowed in the draft plan that has been released recently is basically a situation of no change. It is very complicated, but recycling water basically means you might get more use at a given net extraction. So instead of needing to take two gigalitres and put one back, you might take two gigalitres and recycle it and get twice as much use out of it, essentially.

But in doing that there are issues with the quality of the waste water that has to be discharged back into the river. As we approach both those reviews is very important that, when you look at these issues, you do not look at just one dimension; you look at the effects on the total system and all the requirements that need to be satisfied by the management of the water resources. Recycling delivers some benefits, but it can also levy some costs. Getting that balance right is the key to sound water management policy.

THE CHAIR: Mr Smyth.

MR SMYTH: Just going back to the paragraph that starts with “Community puzzlement”, if water usage goes up, which is expected on Actew’s statement of intent—they expect water consumption will rise considerably in 2011-12—will you therefore suggest that the costs of water will be reduced?

Mr Gray: I am sorry, I did not get the tail end of that.

MR SMYTH: Will you therefore suggest that the cost of water, water charges, be reduced if consumption goes up?

Mr Gray: In simple terms, we set a revenue cap for Actew which is based on efficient cost within forecast of volume of water sales. We divide one by the other and that tells us what the prices are.

MR SMYTH: But if water goes up—

Mr Gray: In the situation you describe, if our forecasts were going up against a given revenue cap the prices would be coming down.

MR SMYTH: How would that happen? What would trigger you to then vary the costs that you have set for Actew?

Mr Gray: We would not be changing the costs that we attribute to Actew. We would be saying, “You are going to—

MR SMYTH: I am sorry, not the costs, the charges they can make.

Mr Gray: In the determinations that we are about to do?

MR SMYTH: Yes.

Mr Gray: In the last determination, there was a mid-term review built in which enabled the commission to vary the prices if the water volumes were different from those that had been forecast when the initial determination was made. We have not yet made up our minds as to whether we will put a similar process into the forthcoming determination but, if there was one, that would be another opportunity. If the outturns were different from the forecasts then the prices would be adjusted consequentially.

MR SMYTH: If over the long term there was a decrease in water usage would you

change the period over which Actew might claim the costs of its capital infrastructure—so put it out over a longer period rather than a shorter period?

Mr Gray: We are just starting a review process, so it is difficult to anticipate where we might wind up. The issue of the role of capital charges in Actew's costs is something we are certainly going to be looking at very carefully. As you are probably aware, the major component in Actew's costs is the return on capital. That is something the commission is going to look at very carefully in the forthcoming review. I do not see a particular linkage, though, to water volumes, which tend to be demand determined. They are determined by what ACT water consumers want to do with their water and how much they want to use.

THE CHAIR: Gentlemen, thank you very much. Obviously we will send you a transcript. For you there are no questions on notice, so I do not have to go through the timing. But, Mr Barr, there will be some questions on notice in relation to earlier parts of the day. Given the lateness I think we have decided that we are not expecting answers until 13 January.

MR HARGREAVES: That gives you an extra couple of weeks.

THE CHAIR: It gives you an extra couple of weeks for Christmas.

Mr Barr: That is very kind of you.

THE CHAIR: Members, three working days, please for questions. On behalf of the committee, I would like to thank you, Treasurer, and the various officials—some of who are still remaining—for attending today. I now formally declare this public hearing closed.

The committee adjourned at 11.53 am.