LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

SELECT COMMITTEE ON ESTIMATES 2013-2014

(Reference: Appropriation Bill 2013-2014 and Appropriation (Office of the Legislative Assembly) Bill 2013-2014)

Members:

MR J HANSON (Chair)
DR C BOURKE (Deputy Chair)
MR M GENTLEMAN
MR B SMYTH

TRANSCRIPT OF EVIDENCE

CANBERRA

MONDAY, 1 JULY 2013

Secretary to the committee:
Ms N Kosseck (Ph 620 50129)

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.

APPEARANCES

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Amended 20 May 2013

The committee met at 10.29 am.

Appearances:

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

Independent Competition and Regulatory Commission
Buckley, Mr Mike, Senior Commissioner

ACTEW Corporation Ltd
Sullivan, Mr Mark, Managing Director
Wallace, Mr Simon, Chief Finance Officer

THE CHAIR: Morning, Treasurer; morning officials. These proceedings are being recorded for the purposes of Hansard and are being live web-streamed. I draw your attention to the privilege statement. Have you read that? I imagine that everyone in the gallery is also aware of that. Can you all indicate? That is great.

The way that we will proceed today, given the limited time, is that we will have half an hour for the ICRC, half an hour for ACTEW and half an hour for the Treasurer. We will start with the ICRC. Would you like to make a brief statement? I would ask that it be brief simply because we are short on time.

Mr Buckley: Thank you, chair. I have read the privileges statement and there are no issues. I do not need to make an opening statement.

THE CHAIR: I will start. The draft determination that the ICRC made recommended a 16 per cent drop in water prices. The final determination is a five per cent increase. Can you explain what has occurred between the draft and the final that has caused the ICRC to have such a significant change of mind?

Mr Buckley: I think there are two significant changes from the draft to the final. In the draft the commission looked at implementing a fair cost recovery scheme. The purpose of the fair cost recovery arrangement was to shift the burden of meeting the cost of the water and sewerage business from existing users to future users to investigate whether or not it was possible to make that transfer. The assumptions underlying that were that in future the community would be larger, the incomes would be higher and the capacity to pay of users would be greater. As well, if people used more water then it could be spread over that use. That was the principal reason which has changed. The commission has moved away from that.

The second issue, and it is related to the fair cost recovery scheme, is one that the commission identified pretty late in the day. That was that in the first decision—in the draft decision—the commission determined that it would use ACTEW's own cost rather than that of a typical firm—the hypothetical benchmark approach which had been used previously.

In undertaking that process, the commission found that there was a mismatch between the timing of ACTEW's debt service filling obligations and the time at which the regulatory model would provide those revenues to ACTEW. Essentially, the required revenues were calculated using real values. Yet ACTEW's actual debt servicing was calculated and paid in nominal dollars. When that was combined with the fair cost recovery scheme, which pushed out the payments for the return on ACTEW's costs, the commission found that there was a mismatch between the receipt of cash flows by ACTEW and the timing that ACTEW would have to make its payments.

For that reason, the commission changed its approach to calculate. Instead of using a real model, the commission moved to a nominal model. What that meant was that interest and return on capital were determined in nominal terms so that inflation was allowed for in it. To compensate for that, the inflation adjustment which was previously made to the regulatory asset base will not be made in future. Instead of recognising inflation through indexing the regulatory asset base, inflation will now be recognised directly through the interest costs which ACTEW pays and the income received by government. That is the short answer.

THE CHAIR: Essentially, you have got community support. You say this in your documentation that there is considerable community support for the fair cost recovery scheme. Essentially, if you did have a fair cost recovery scheme, ACTEW would become insolvent or it would cause significant problems for them financially. They would become unviable. So you now have to go to another costing methodology and bump up the price of water, otherwise ACTEW goes bust. Is that right?

Mr Buckley: The modelling which we—in the interaction with ACTEW at the end of the process, our models were showing one series of cash flows and their models were showing another, which was indicating that it was going to be a near-run thing in terms of whether or not they would be able fully cover their debt servicing costs.

THE CHAIR: They would become insolvent, they would go bust or what?

Mr Buckley: Whether or not they go insolvent, really, it is an accounting issue which the commission is not placed to make. What it did observe from its modelling was that there was going to be a very small, if any, surplus and that depending upon what accounting provisions were taken in terms of recognising certain costs, there was the potential for the accounts to go into deficit. For that reason we stepped back.

THE CHAIR: You said that it is an unacceptable risk to ACTEW's financial viability. So you are saying that if you did pursue a fair cost model that risk was unacceptable?

Mr Buckley: Correct.

THE CHAIR: And you have had to determine an amount that guarantees that ACTEW will not become insolvent?

Mr Buckley: Correct.

THE CHAIR: In layman's terms then, who got it wrong? I mean, there is a big turnaround from 16 per cent reduction in water to a five per cent increase. You have raised expectations within the community. There is an expectation that everybody's water prices are going down. Essentially, because ACTEW might go bust, we are getting told that we are all going to be paying more for water. Who got it wrong?

Mr Buckley: I think we have all learnt a lot more through this process of taking a regulatory model which has operated in this country for more than a decade and, as it were, stress testing it in a fairly unique environment, and that is that the community is using much less water than what it was previously. We—the community—through ACTEW undertook very significant investments to improve the water security outlook for the community. As a consequence of those two factors, the regulatory model which we used previously—

THE CHAIR: Just going to that point, if the cost of the dam had not tripled, would we be in this situation where water prices are going up or would you have been able to then plan a fair cost?

Mr Buckley: The regulatory regime is a cost recovery regime. So if costs are incurred, then those costs have to be recovered through prices. Those decisions to improve water security were taken. The commission included those costs in the regulatory asset base.

THE CHAIR: So the cost of the dam is now flowing through, as we see it, into the cost of water. The more the dam blew out, the more we pay for water.

Mr Buckley: The community would have paid for the dam either through its water charges or through its taxes because—

THE CHAIR: They had a choice to pay the original price of the dam, which was $145 million, or the current price, which is over $400 million. Based on what you are saying, the more the dam costs, obviously the more water costs. That is why it has gone from a 16 per cent reduction in price to a five per cent increase.

Mr Buckley: There are a number of reasons for the increase. There is a number of factors. The largest reason for it is the unwinding of the fair cost recovery scheme. That accounts for, I think, about nine per cent of the unwinding. If we want to talk about mistakes, yes, the commission did make a mistake in the water volumes, the assumption it used in relation to the proportion of water sold at tier 1 versus tier 2.

Our proportion of water at tier 2 was too high. So we assumed that more revenues would come through from those sales. When we got the actual numbers and had to reverse that around, that meant that the 16 per cent decrease we spoke of should have really only been around about a 10 per cent decrease. Yes, there was an overstatement of the extent of the decrease because of the water sales volumes which were used. But I think that highlights the sensitivity of these numbers to changes in water sales—actual water sales and forecast water sales.

DR BOURKE: Is this the uncertainty you were talking about in your draft price decision which you referred to in your media release for the final water and sewerage prices report? In other words, you talked about considerable uncertainty principally around your approach to intergenerational transfer. Is this one of the uncertainties that you were talking about, and what were the other ones?

Mr Buckley: Yes, Dr Bourke. That uncertainty around whether or not the fair cost recovery would be sustainable was identified. The other issues were whether or not there would be any change in interest rates and interest rate structures in that period. The commission reviewed the reasonableness of certain coupled expenditures, mainly in relation to a couple of projects related to the Cotter.

The commission was satisfied, on the information provided, that those costs should be rolled into the wrap. That marginally increased the cost base. But overwhelmingly that uncertainty was around the fair cost recovery scheme. While it was popular, the commission's overriding aim had to be whether or not it was sustainable. We have shown that it probably was not sustainable.

MR GENTLEMAN: Mr Buckley, how do the ICRC pricing changes compare to recent announcements by other utilities across Australia?

Mr Buckley: The ICRC's decision is that water prices will go up by 4.95 per cent and that the sewerage charge will go down by 18 per cent, which means that overall there is a seven per cent reduction in the bill, because you only get one bill. You do not get a water bill and a separate sewerage bill—well, households don't. We know that in other jurisdictions the drought caused similar issues. There were desalination plants built and other attempts to improve water security. As a consequence, water charges are going up, in some cases significantly, in other jurisdictions.

MR GENTLEMAN: So do we compare well to those other jurisdictions?

Mr Buckley: I look to the Treasurer—

Mr Barr: I can give you some information. South East Water in Melbourne, water and sewerage bills are up 25.7 per cent. Yarra Valley Water in Melbourne, 23.4 per cent; City West Water, Melbourne, 19.8 per cent; Gosford, 7.6 per cent; Brisbane, 6.7 per cent; Western Water, Melbourne, 4.8 per cent; Hunter Water, 2.2 per cent. And here in the ACT, minus seven per cent.

THE CHAIR: Thanks, Mr Gentleman. Mr Smyth.

MR SMYTH: But those numbers are meaningless unless you have an equal starting point, of course. Mr Buckley, in the documents, the commissioner has said that the ICRC did not have an understanding of the possible impacts on ACTEW's cash flows when they made the initial determination. Why was that?

Mr Buckley: The principal reason being that the commission has looked at the economic flows and not the accounting flows.

MR SMYTH: So that is that disparity between the two systems?

Mr Buckley: Correct.

MR SMYTH: Why do we operate in two different systems?

Mr Buckley: The traditional method under which water prices are set in the territory and all other jurisdictions has been to use the hypothetical firm or typical firm benchmark, which places less emphasis on the actual costs of the business in determining elements of the cost of capital and it has not looked at the accounting flows.

MR SMYTH: Was ACTEW open with the ICRC in terms of the effect on its cash flow or was there another reason it was not picked up in the draft?

Mr Buckley: In the draft it did not present that information to the commission because it was not the previous methodology by which—I assume that is the case—prices and revenues were determined. But at the end of this process when the commission recommended, and it has been accepted, that there will be a move to looking at the actual borrowing cost, of financing costs of ACTEW, the commission entered into consultations very late in the day to confirm the likely cash flow impacts.

I stress "likely" because these things would have to be assessed by ACTEW's own auditors and accountants to see what provisionings they are going to make. We got an indication from them of what they thought their cash flows were going to be and we took that into account in making the final determination on the return on capital.

MR SMYTH: In the future, now that we have come back to a two-year model, usage drops, will that be the trigger for future increases in water costs to meet the sustainability of ACTEW issue?

Mr Buckley: If our costs remain the same and the number of households and the amount of water they use goes down, then you are going to have to spread those costs over the existing households. You have a choice. You can either do that through the lump sum charge, which at the moment is $100, you can do it through the volumetric charge, or you can do it from a combination of both. Or you would have to accept a lower return to the community from its investment in ACTEW.

MR SMYTH: Can you explain why you took the path that water will increase, yet sewerage would decrease? Is there a reason for the path that you have taken?

Mr Buckley: The principal reason is that the fair cost recovery scheme was only applied to the water security assets, which is the water side of the business, and not to the sewerage business. There was no unwinding of the fair cost recovery scheme on the sewerage revenues.

MR SMYTH: You are happy in the future that on the assets ACTEW can now recover enough to cover the payments required?

Mr Buckley: On the information before us, yes.

MR SMYTH: Was it explained to you how ACTEW would pay back the debts that it has that it has incurred from the building of the dam?

Mr Buckley: The commission allows for the recovery of that capital through the charges. The mechanics of how that is done would be an internal matter for ACTEW.

The commission just has to ensure that account is taken for meeting their capacity to do that.

MR SMYTH: Commissioner Gray noted when he appeared on the 17th that the draft submission was as large as the initial submission. Can you outline what information was new, updated or changed that led to such a big submission being required?

Mr Buckley: I can only presume that ACTEW wanted to fully address every issue which the commission raised and, in particular, they provided substantial information to the commission in respect of the projects which the commission had previously determined to be not prudent or efficient and excluded from the asset base. And they provided sufficient, significant new information to allow the commission to re-determine the position.

MR SMYTH: Would you not in your initial submission address every issue? Is it unusual to get a submission that does not address every issue?

Mr Buckley: There were some issues which came up in relation to the costs for particular items. One was the greenhouse gas emission costs. Another was in relation to the Cotter precinct trail and there was another issue in relation to capital cost margins. And we indicated in our draft decision that we did not think we got sufficient information from them initially and that we invited them to provide us with further particulars on that in their next proposal, and that they did.

MR COE: Both today and in past forums or all through ICRC media releases, the term “insolvency” has been used. Can you expand on your assessment of the finances and whether you are referring to cash flow, a balance sheet or a combination thereof?

Mr Buckley: In referring to insolvency the commission was referring to a risk of insolvency, not that they would be insolvent, and the commission had to ensure, through its determination, that ACTEW had sufficient revenues to cover its official cost. We were concentrating on making certain that the cash flows were available because under the previous regulatory model some of the identified revenue requirements were actually capitalised through the indexation of the rate, which meant that the revenues which ACTEW obtained were less than what would appear to be the case on a first reading of the decision that their asset values were increased rather than their cash flows.

MR COE: So with regard to the cash flow statement or, in fact, all the financial statements where we see borrowing costs increase—and these are at a time of relatively low interest rates as well and we are also seeing the interest-bearing liabilities also increasing—how does that tie in with your assessment of a risk of insolvency?

Mr Buckley: If the commission did not provide ACTEW with sufficient revenues to meet those financing costs, then that could potentially happen. But the objective of the determination was to ensure that they were able to make those costs. That was the reason why the commission raised the allowed return on debt, I think from around 4.7, 4.8 up to 5.5, and did not determine it in real terms but determined it in nominal terms. So the commission, as best as it could, studied the cash flow requirements of that debt.

You have got to remember the regulatory asset base expanded significantly over the last period and that expansion was primarily as a result of new borrowings by ACTEW. So it was that combination of a higher debt and the need to service it in nominal terms which brought the commission to the conclusion that it had to raise the revenues available to ACTEW to service that debt.

MR COE: So as a result of that rising of projected revenue, does that mean that, in your eyes, ACTEW should have no trouble, that is that there is a relatively low risk of ACTEW not being able to meet their borrowing costs?

Mr Buckley: I think that is really more a question which ACTEW would be better placed, given the financial judgements which have to be made, accounting judgements which have to be made. But I think from the regulatory determination, the commissioner has looked at the stock of debt and at the cost of servicing that debt and has determined a revenue allowance which would allow ACTEW to meet that debt servicing cost.

THE CHAIR: What is the total debt of ACTEW in dollar terms?

Mr Buckley: I do not have that figure in front of me.

THE CHAIR: You do not know what that is?

Mr Buckley: The commission operates on a regulatory asset base. I will get the number here.

THE CHAIR: That is all right. That is a question I can forward to ACTEW when they appear. The commissioner has raised concerns with ACTEW's costs and the management of those costs. I cannot remember the exact phrase when I heard him in the media talking about the need for ACTEW to get their costs under control. As you are making a determination that water prices increase, are you comfortable that ACTEW is doing what it needs to do to get costs under control?

Mr Buckley: There are two aspects of that. In relation to the operating costs of the business, ACTEW has put forward a revised proposal, which the commission accepted, which is substantially less than what ACTEW proposed in the draft decision. And they emphasised to us that what they are proposing is less than even what the commission's consultant identified as potential efficiencies in the business.

THE CHAIR: So they were inefficient to a standard and you are saying they have reduced their operating costs or are proposing to. What is the quantum of that reduction in operating costs?

Mr Buckley: The operating costs in nominal terms will rise.

THE CHAIR: But it is less than they originally intended?

Mr Buckley: Yes, significantly less.

THE CHAIR: What does “significantly less” mean in terms of an annual amount?

Mr Buckley: I go to the forecast operating costs. ACTEW put forward for 2013-14, in its draft decision, a proposal for total operating costs of $134 million. And in the final decision in July 2012 ACTEW’s July proposal was for $80 million—

THE CHAIR: For the 2013-14 financial year?

Mr Buckley: Yes.

THE CHAIR: In operating costs?

Mr Buckley: Yes. And the commission’s draft decision was for $64 million.

Mr Barr: Capital.

Mr Buckley: Sorry. I am on the wrong page. It did not seem right.

MR SMYTH: What page are you on, Mr Buckley?

Mr Buckley: I am on page 130. That will give the final decision. What the commission approved was a—

THE CHAIR: For the 2013-14 financial year, what was in the draft submission and what was in the final? What was the difference?

Mr Buckley: The total operating expenditure approved was $69 million versus—sorry, I was going to try to strip out some other numbers which get into this.

Mr Barr: Do you want to take it on notice?

THE CHAIR: No, I want this figure now.

Mr Barr: It is in the report, if you just give him a moment.

THE CHAIR: Sure.

Mr Barr: It will be in the report.

THE CHAIR: Maybe there are some people here in the gallery that know that cost and can help Mr Buckley, if anyone has got it?

Mr Buckley: In the July proposal, ACTEW put forward a forecast water operating expenditure of $65 million and a total forecast operating expenditure of $69 million. That was the July proposal.

THE CHAIR: Does anyone know what these figures are? I think Mr Sullivan is indicating he does. This might be an opportunity to change from the ICRC to ACTEW and maybe Mr Sullivan—

DR BOURKE: I have got more questions for the ICRC, thank you.

THE CHAIR: We all have more questions for the ICRC. Unfortunately, the time allotted—

DR BOURKE: The time allotted has been divvied up by you. You have taken up 25 minutes and given me and Mr Gentleman three minutes. That hardly seems fair. I have been patient and waiting for my chance to ask a question. I would like to put a question to the ICRC before—

THE CHAIR: As I indicated earlier, unfortunately, in the time allotted, we only have half an hour for the ICRC—

DR BOURKE: Perhaps Mr Chair can make sure that the visitor does not ask any questions.

THE CHAIR: Unfortunately, we now have to move on. Thank you very much for attending, Mr Buckley.

Mr Barr: We will get that.

THE CHAIR: Hopefully the general manager of ACTEW will be able to answer this question, and perhaps you could take that on notice so that we can compare his answer with yours.

Mr Buckley: I will do that.

THE CHAIR: Thank you.

Mr Buckley: Thank you.

THE CHAIR: We will move to ACTEW. You have had some time to prepare, Mr Sullivan, while you have been listening, so are you ready to guess what your first question is?

Mr Sullivan: It always surprises me what the first question may be.

THE CHAIR: Does it? I will try not to surprise you. Thank you for appearing, Mr Wallace and Mr Sullivan. As indicated, we have only got half an hour to get through this, so try and keep your answers as straight to the point as you can. We are just trying to get to the question in terms of what the operating costs for ACTEW were in the draft proposal—I imagine the submission that you put forward initially as to the final operating cost is in the final report—and the differential between the two. Maybe you can explain where that reduction will occur.

Mr Sullivan: In our initial submission we proposed a $134 million operating expenditure on a real 2012-13 cost basis. In the ICRC draft report—we do not put draft submissions in; they put out a draft report—they were going to allow $118.4 million. In our response to the draft report, we proposed $132.3 million. In the final ICRC determination there was an allowance of $127.3 million. The difference was mostly made up by a single issue—that is, the costs of Uriarra village, which impacted our cost base by $4.83 million.

THE CHAIR: Moving to other issues, the turnaround from a 16 per cent reduction in water prices to an increase of five per cent appears to be largely attributed to a couple of things, including the risk of insolvency for ACTEW because of your operating costs and the requirement for dividends and so on. But it would appear that because of these costs and the amount of debt that ACTEW has accumulated, we are starting to see now, with the cost of the blowout in the dam, that where a fair cost recovery model would have seen a reduction of 16 per cent in water prices, we are now seeing an increase of five per cent in water prices. Have you got your costs under control?

Mr Sullivan: Of course we have our costs under control. I think it was unfortunate that the ICRC in their draft determination referred to a particular cost methodology as fair, because to dismiss it, as they now have, suggests that we have got something different to that.

THE CHAIR: Something unfair.

Mr Sullivan: Yes, that is what it suggests; whereas it was a unique view of cost recovery in the regulatory world. I am interested that they said it was very popular. Only one submission to the draft determination addressed the issue of the fair cost recovery methodology, and that was ACTEW's. We did not say it was a good methodology. At the public inquiry every witness was asked their view on the fair cost recovery methodology and, with the exception of ACTEW, they said, "We don't have a view on it." It was dismissed for the right reason—that is, it was not the right way to recover costs.

To say that the only reason they moved from this was to protect our finances—you have to understand that, since the start of regulation in the ACT, which is over a decade, all of our goalposts have been determined by the regulator. So our revenue goalposts are determined by the regulator; our cap-ex goalposts are determined by regulators. When we see a change in a regulatory determination, it is a change—in this instance, a quite dramatic change—from the approach taken by the same office, called the ICRC, for the previous 10 years as to now. That, of course, did result in mistakes being made. The move from a typical firm, which every regulator in this country usually uses, to a firm-specific view required the ICRC to have a far deeper understanding of the inner workings of ACTEW than it has ever had.

The fact that they had to then find out and then discover what a general economic model meant in a firm-specific context caused them some surprises. But the threat to us—a regulator could turn us insolvent tomorrow. They could set a zero price for water. They could say, "It's an obligation you must have." We do not determine our price. We work within the boundaries set by the regulator on cap-ex/op-ex, rate of return, capital costs et cetera. So, yes, unlike a usual business, we are in the hands, in terms of our financial destiny, of a regulator.

To go as far, however, as to suggest that we would become insolvent, an accountant or a company director has a shiver at the word "insolvent", because there are very formal requirements under the Corporations Act, in reporting to ASIC and others, if you ever are close to being, or indeed are, insolvent. ACTEW has not ever been insolvent and is not in a position where it risks insolvency. But I think that was an economics use of the word "insolvency" rather than an accounting-based use of the word "insolvency".

THE CHAIR: There seems to be a level of acrimony that has built up between the ICRC and ACTEW and a level of frustration. Is your working relationship with that organisation a functional one?

Mr Sullivan: It is a very good working relationship. We have publicly applauded the commission in terms of particularly the movement from its draft determination to its final determination. The intercourse between us on issues has been fine. We have been dealt with, I think, extremely fairly. It does not shift us away from the fact that we believe that there must be risk in a regulator in the ACT adopting an approach that no other regulator in this country has adopted across so many issues in this determination. That is our worry. But in terms of the professionalism of the ICRC, in terms of their willingness to hear our case, no. With respect to the level of the working relationship between me, the commissioners and the officers of ACTEW and the ActewAGL regulatory affairs group and the regulator, it is an excellent working relationship. It does not mean that you still do not say if you believe that one or the other side have not got it right.

THE CHAIR: The differential between the 16 per cent reduction and the five per cent increase, the draft to the final, what is that in dollar terms, the total amounts—not per household but the total impact of that on your organisation? What is that turnaround?

Mr Sullivan: We are still trying to model it. We are still trying to understand—the determination is a complex document. That sort of a move-around is probably $20 million or $25 million-plus a year in revenue.

THE CHAIR: $25 million a year? Okay. Are you comfortable with that figure?

Mr Sullivan: $20 million—

THE CHAIR: $20 million to $25 million.

Mr Sullivan: I cannot be precise because we are still trying to model it. We go from a regulatory determination and we build our own business forecasts. If, for instance, we disagree with a parameter of the determination, we have to determine whether we use our parameter or the regulatory parameter. Sometimes it could mean more revenue to us against the regulatory model.

THE CHAIR: When do you anticipate having a final view of what that impact is?

Mr Sullivan: I think we will be working with Treasury over the coming weeks to do that. Then we have another issue in terms of the possible impairment of our assets as a result of the reduction in revenue. We are working through that with our accountants and, clearly, it will be an issue for our auditors.

THE CHAIR: Can you explain that in brief terms?

Mr Sullivan: Yes. An asset is valued on its capacity to earn revenue. If the capacity of an asset to earn revenue is diminished, the accounting standards which we operate under would generally reflect that through a diminishment of the value of the asset. That is called an impairment, and that impairment is a charge against the profit of the organisation in the year that it is recognised. There is a lot between that explanation and what it really means to us and then its implications have got to be worked through.

THE CHAIR: Is this the issue where—

Mr Sullivan: It is non-cash. It is a profit impairment.

THE CHAIR: But it affects the dividend, and this is note 2 in the budget paper. I cannot remember what it was; it was the $432 million threat to the budget. Is that the—

Mr Sullivan: It may affect the dividend. That is the question we are working through with the accountants and the auditors.

THE CHAIR: Sure. And when do you expect an answer on that?

Mr Sullivan: It has to be resolved by the time our financial statements are concluded, which will be the end of August.

THE CHAIR: The problem that we have, as you can appreciate—and we might follow this up with the Treasurer—is that there is a determination that is yet to be made that may have a $400 million-plus impact on the budget. You are shaking your head, Treasurer; Mr Sullivan is nodding his head.

Mr Sullivan: I was not nodding my head in agreement with you.

THE CHAIR: What were you—

Mr Sullivan: I am nodding my head in terms of a process. We have a requirement to have our financial statements—

THE CHAIR: But the note in the budget says that it may lead to a reduction, I think, of $432 million. So it is a real thing.

Mr Sullivan: Between zero and $400 million.

THE CHAIR: Between zero and $400 million. So, potentially, there is a $400 million threat to the budget. The problem is that we are going to be asked to pass a budget in the Assembly that has an outstanding amount of up to $400 million swinging in the breeze and we do not know what is going to happen with that until after we are being asked to pass the budget. You can understand why that is a difficult situation that this committee and then the Assembly is going to find itself in, because the determination that you are going to make is going to be post the budget, it would appear, being asked to be passed. Is that right?

Mr Sullivan: It is a determination that we need endorsed by the Auditor-General of the ACT. So until we form our own accounting view, which we are working hard to do, and then we present that accounting view in our financial statements, and those financial statements are audited by the ACT Auditor-General and we then see, within all of the time lines allowed, our financial statements published, that is when ACTEW's financial statements and the capacity for dividend payments will be realised.

THE CHAIR: Sure. And you anticipate the date for that will be?

Mr Sullivan: About the end of August.

THE CHAIR: About the end of August. Dr Bourke.

DR BOURKE: Mr Sullivan, this intergenerational transfer of the cost of providing water security which the ICRC talked about in its draft report, that is effectively getting our children and our grandchildren to pay for the assets that we enjoy today?

Mr Sullivan: It is an attempt to say that when you build 100-year-long assets which will service our community for that period of time and which, against some normal modelling, would not be fully utilised by our community for, say, 10, 20 or so years, should you scale the burden of that asset towards those who will use it in normal times more than we are using it now? Our view is that, with climate change and variability, no-one can be confident in saying that we will not fully utilise those assets very soon, which would argue against that rationale. Secondly, in terms of building water security in Canberra for the next generation of 30 years or so, explicit in that statement is that, come 30 years time, we are going to have another solution to build it for the next generation through.

Without knowing what those commitments may be or what those answers may be, we will get to a point where we have another large program to ensure water security going forward. If you read our submission to the ICRC's view on the so-called fair cost recovery methodology, it was that if you then assume that in 30 years time we need to do something more and in another 30 years time we need to do more, we will be imposing such a burden on, I think more likely the grandchildren of our grandchildren, they will be paying for every aspect of water security for the previous century. Therefore we formed a view that the current straight-line recovery methodology, which has been utilised by our regulator since its inception and by every other regulator was a fairer method. So it did put burden on future generations, and I think it broke a lot of the rules about putting burdens on future generations. It was unfair.

DR BOURKE: What impact do you see on consumer behaviour from the price changes that have been happening around water prices?

Mr Sullivan: What we have seen in Canberra is an attitudinal change to the use of water, partly driven by, I think, a respect for water. We did have a view that water was bountiful and negligible in price. I think the drought taught us all that we could not ever regard it as always bountiful. Certainly price signals have been in place in water pricing that see people adjusting their behaviours.

This year is the first year where we have probably seen some normality of climate, if there is such a thing anymore, and we have seen a slight upswing in water consumption, but nowhere near even the very hot days of summer this year did we see anywhere near a movement back to traditional historical numbers. So there is an attitudinal change. I think this price determination will not alter them. I would hope it would not alter them.

DR BOURKE: How does that impact on the ICRC and ACTEW's different forecasting for water demand which was in their report?

Mr Sullivan: Our argument has been that whatever the demand model you have, it should be transparent, it should be publishable, it should be able to be understood by whoever wants to understand it. What we have gone back to is basically a best-guess conservative estimate on water consumption.

THE CHAIR: Mr Gentleman.

MR GENTLEMAN: Mr Sullivan, how does ACTEW's gearing ratio compare with other utilities across Australia?

Mr Sullivan: In most regulatory determinations where regulators use typical firm rather than specific firm, the regulators use the gearing ratio of 60 per cent to be the typical firm gearing level. ACTEW's gearing level is 60.2 per cent. We are right on a typical firm. Having said that, one thing my board is conscious of is the fact that the water security major projects have increased our gearing level to a level which is at the high point of what their company is with.

We expect, and this determination would support the fact, that we will see a tapering off of cap-ex and that will see our borrowing requirements reduce somewhat. The biggest impact, again, in terms of the theoretical calculation of our gearing levels will be on if and by how much our assets are impaired by. That again switches your gearing ratios, because if your asset values go down and your borrowing levels stay the same, you actually have different gearing levels.

MR GENTLEMAN: What was the gearing level previously?

Mr Sullivan: I think it traditionally went around 35. Simon Wallace, the chief financial officer—

Mr Wallace: You are saying prior to water security?

MR GENTLEMAN: Yes.

Mr Wallace: Yes, around 30 to 40 per cent.

MR GENTLEMAN: So these water security investments now completed will mean that you will not need to borrow as much in the future?

Mr Sullivan: That is right.

MR GENTLEMAN: Or the near future.

THE CHAIR: Mr Smyth.

MR SMYTH: What capital repayments do you make every year?

Mr Sullivan: I would need to take that on notice, Mr Smyth. We do have some of our borrowings in the form of capital inclusive repayments and others of our borrowings are interest-only borrowings. I would need to get Simon to do—

Mr Wallace: So you are saying debt repayments? It varies with CPI because they are linked to CPI, but it is approximately $8 million a year.

MR SMYTH: So you are paying off $8 million a year of the capital?

Mr Wallace: Yes.

MR SMYTH: What is the plan? What are the total borrowings that ACTEW currently has?

Mr Wallace: $1.3 to $1.4 billion.

MR SMYTH: So $1.3, $1.4 billion at $8 million a year leaves you a substantial numbers of years in which to pay that off. How do you pay it off in the end?

Mr Wallace: That is obviously going to depend on a number of factors. In terms of our organisation, we are a capital intensive organisation, so I do not know if you would ever be seeing us paying off our debt in full. That is not the type of organisation we are. There would obviously be revenues going forward, and we have got our dividend policy. The borrowings will mature during different cycles. You have got debt that is maturing at 2048, 2030, 2020. They are our medium-term notes and they mature at different times.

Mr Sullivan: Typically, there are a number of strategies. At the moment, as I said, I think the board is comfortable with the gearing levels. If you were not comfortable with the gearing levels you would be talking to your board; you would be talking to your owners. It could be through an adjustment of dividend policy; it could be through a capital injection specifically to assist in repaying debt. There are a whole lot of strategies which you could use. If you are comfortable with the gearing level you can basically say, "We'll just keep paying our debt off."

MR SMYTH: The interest, the borrowing costs, go up year by year. It is $76 million for the coming year. It is 79, 85 and 91 in 2016-17. Is that sustainable?

Mr Sullivan: I think at this level it is sustainable, yes. As I say, it is sustainable as long as your board and your owners understand what is happening. When we go back to taws here, we now have an asset base which has been determined by the ICRC to be prudent and efficient. They do not get into the debates of: what did you say about the price of an asset on this day versus another day? The ICRC have now determined that the Cotter Dam is a prudent and efficient investment and therefore they will allow, in a firm-specific way, that ACTEW debt on such facilities be allowed in water prices.

We now have a degree of certainty that our borrowing will be allowed and sustained through water prices in the future years. Until we got this determination—and there was talk as to whether or not a number of those assets were considered prudent; they were all considered efficient before but the question was around prudency—we had a worry about that.

MR SMYTH: All right. Liabilities are different to debt. Your liabilities go up year on year from $1.3 billion this year to 1.4, 1.5, 1.6. Then in 2016-17 there is a shift of $300 million from your non-current to your current liabilities. How do you cope with that?

Mr Wallace: That movement is one of our debts. It is going to be paid off.

Mr Sullivan: We would borrow again.

MR SMYTH: So you will have the cash to pay the $322 million off, or you will borrow again?

Mr Wallace: We will borrow to fund that.

Mr Sullivan: We will borrow money to fund it.

MR SMYTH: So we are going to continually borrow to fund the debt?

Mr Sullivan: As I say, the current strategy in ACTEW is to fund the borrowing costs of debt. There is no capacity within ACTEW, other than through the capital-enforced lend borrowings that we have, to pay capital off because we do not retain profit. That is a shareholder interest and a board interest as to: if this strategy is not sustainable then what do you put in place to address it? I think at the moment everyone is comfortable that it is a sustainable strategy to date.

MR SMYTH: So the government, through its shareholders, has asked you to build a dam, but it has not taken into account how you will pay that borrowing off or given you a clear path on how you will pay that off?

Mr Sullivan: I think what the government said to us—or what we recommended to the government and they accepted—was that we believe that we can acquire the capital works necessary for water security through borrowings, that we have the capacity in terms of our business and our balance sheet to borrow and repay the borrowing costs of those projects.

MR SMYTH: But if you are only paying it off at $8 million a year on a $1.3, $1.4 billion debt, you either continue to borrow and pay the interest costs or at some stage you tackle the debt. Has the government given you a direction or an indication of how it would like you to tackle paying off the debt?

Mr Sullivan: No. At the moment the strategy is we pay the borrowing costs.

MR SMYTH: So the government has asked you to build something but continues to take its dividend and leave you with the debt?

Mr Sullivan: I will just say that I think the strategy recommended by ACTEW at the moment is to borrow for the water security major projects and meet those borrowing costs through our business. We do not have a strategy, and we have not put a strategy to government, in terms of the final payment for those assets—if there ever is a time when you would put in such a strategy. It is plausible that you would never put such a strategy in place.

THE CHAIR: You just stay in debt forever.

Mr Sullivan: Most utilities are in debt forever. If you look at a utility like—

THE CHAIR: Yes, but the debt has doubled in the last couple of years.

Mr Sullivan: Sydney Water, which has been in existence for 100 years, they have never been not in debt. No utility is debt free. No utility ever would be debt free.

THE CHAIR: The quantum of that debt, I suppose, is the issue.

Mr Sullivan: You went through some water pricing there. Victoria solved its water security issues through the building of a desal plant, the building of a north-south pipeline and the building of several other major water infrastructure assets. The result there was basically a 20-plus per cent increase in the price of water. The fact that the Canberra community is funding $600 million worth of water security assets and the costs of that funding and we are able to reach a determination whereby the price of water in the ACT will go up by five per cent puts pressure on me, and I think should provide a great deal of relief to the community.

The one thing we have said since 2009 was that we believed that the water security major project should see an increase in water bills of approximately $100 per household. We have got a determination which has looked hard at our business and has come through—as I say, it was their words—a novel way of looking at a regulatory business and we have seen that price of water kept down to five per cent. I think if you were an observer from outside you would be saying that if that could happen it is pretty good. If we can make our business work—and we believe we can—and we can still provide a return on our investment to our shareholder, which we are required to do, and we can still play a role within the environment in the community, as we are required to do, that will be a good outcome for everybody.

MR GENTLEMAN: Mr Sullivan, what is the risk to the territory if you do not invest in that water infrastructure?

THE CHAIR: Thank you, Mr Gentleman. We will go to Mr Coe for a new question. It will have to be a quick one.

MR COE: Regarding the interest rates that ACTEW is receiving—

Mr Sullivan: Receiving?

MR COE: Sorry, is paying, rather—what exposure does the organisation have to fluctuation in rates on a month to month or yearly basis? You said you have got some borrowings tied up till 2014.

Mr Sullivan: I think we should take it on notice, Mr Coe. Our greatest exposure would be with inflation. Most of our interest rates are fixed in terms of the interest rate but vary with inflation. Generally, your risk of inflation is usually then supported and incorporated within your pricing base. So if you are moving with inflation you are protected from risks of inflation. The historically low interest rates we are paying are basically secured in principle through our debt programs, but I think to be fair we should give you a more detailed response.

THE CHAIR: If you could provide that detail on notice then. Mr Coe, I note the time and I know that there are many more important questions that we would like to ask. Unfortunately, we only have an hour and a half allotted. We will now move to questions to the Treasurer. Thank you, Mr Sullivan and other officials.

Mr Sullivan: Thank you very much.

THE CHAIR: I do not know whether you are going to remain here just in case there are some questions that the Treasurer cannot answer, but we will see how you go.

Mr Sullivan: I think the Treasurer and the Under Treasurer will answer everything.

THE CHAIR: They will be right, you reckon?

Mr Sullivan: Sure.

THE CHAIR: We will see. Treasurer, the budget has the dividend in it from Actew. Do you anticipate that, as a result of this final determination, there will be any change to the dividend paid by ACTEW and, therefore, the budget position of the ACT?

Mr Barr: Yes.

THE CHAIR: Could you provide details of that?

Mr Barr: Early indications are that it will be in the order of about a $20 million to $25 million adjustment. We can only really have certainty on that for the coming two financial years as another pricing determination is to occur after that. There are a number of variable factors, the most obvious being the amount of water consumed in the city that could, of course, impact on that and would in any given year anyway so—

THE CHAIR: So it is $20 million to $25 million a year?

Mr Barr: Yes.

THE CHAIR: And assuming that the next determination is similar to the current determination then—

Mr Barr: I cannot make that assumption.

THE CHAIR: Of course, but you have to put some assumptions in the budget. They are estimates. So we are talking about a $100 million impact on the budget over the forward estimates then?

Mr Barr: I would not say that, no. I would say there is an impact in the coming financial year and then a range of other decisions can then be taken that can address the budget.

THE CHAIR: Yes, but you put estimates into the budget for the forward estimates for the dividend based on a body of work. That body of work has now changed, and I assume that you will adjust your body of work—

Mr Barr: That is correct, in the mid-year update.

THE CHAIR: And you did it for $20 million to $25 million a year, which is the latest determination. Then the impact on the budget and the forward estimates is between $80 million to $100 million over the forward estimates, is it not?

Mr Barr: You assume a carry through beyond the two years. We cannot make that assumption at this point.

THE CHAIR: So what assumption are you going to make?

Mr Barr: We will update that in our mid-year update, once we have more information.

THE CHAIR: But we have a situation where we have got a budget that we are examining, that you are going to ask us to debate and to vote on and you are saying, "Well, I can't give you answers, but it might be a variance of a $100 million impact on the budget." That is a pretty significant—

Mr Barr: That would be $100 million in a cumulative budget of nearly $20 billion over that time. It is a very minor and modest difference.

THE CHAIR: You think $100 million might be minor and modest; I do not. I think that when you—

Mr Barr: Over four budgets, Mr Hanson, and given all of the moving parts of a budget, it is a modest impact.

THE CHAIR: We have been here and we have talked about job cuts, we have talked about savings measures and we have talked about cost increases on families. We are talking about a thousand dollars here and a thousand dollars there which will have a big impact on Canberra families, and you are saying $100 million does not have an impact. It is inconsequential. It is not going to have a significant impact on the budget.

It is. That $100 million, whichever way it goes, could mean jobs or it could mean decreases in the cost of living. You are going to ask us to essentially sign off on a budget while you are still working out your determinations.

Mr Barr: There are a variety of variables in a budget in any given year. I can give you another example. You have a look at the commonwealth's estimates for our GST relativities over the four years and look at the conservative assumption that we have put in our forward estimates. We could have that loss of revenue from the ACTEW dividend more than offset by an increase in the GST relativity over a period of time. But we will make those updates, as we do, every six months and every 12 months in the budget.

THE CHAIR: We have now got a determination that indicates for the next two financial years $50 million. If it continues on, it will be a $100 million impact on the budget. But you are not going to update the budget before we come to debate and vote on it in the Assembly?

Mr Barr: No, because a range of other variables can impact, and we will update at the mid-year update, as we would do normally.

DR BOURKE: Treasurer, does the outcome mean the ICRC process has proved its worth to consumers and the government?

Mr Barr: It certainly shows a robust process, an independent process and one where people have been able to put their views on a number of important policy questions. There has been an opportunity through the process for different arguments to be heard and for people to change their minds. It is clear that the commission has responded to a variety of pieces of information and looked in detail at various elements. You can certainly describe it as a robust process, and we have an outcome now. We will work through the detail of that and continue on.

DR BOURKE: What do you think about the variance between the draft recommendations and the final report and the process that got us from one to the other?

Mr Barr: I will leave commentary on regulatory processes to others, suffice to say we now have an outcome that has delivered a saving to Canberra households of about $83 a year for the average household, which I am sure will be welcomed.

MR GENTLEMAN: Treasurer, I did not get a chance to ask my question of Mr Sullivan earlier on so I will put it to you: these changes have come about because of the investment in the water security programs. What were the risks to the territory if we had not invested in those water security programs?

Mr Barr: The obvious risk is running out of water. That would have been a significant challenge for the city. I think the debates have certainly been canvassed extensively in relation to whether or not it was prudent to undertake investment in water security projects. I am yet to hear anyone argue that those projects should not have gone ahead. I think there might even have been bipartisan agreement on the fact that the city needed to expand its water storage. The former Leader of the Opposition is on the record as saying so in committee hearings earlier this year, in fact. I do not know what the current Leader of the Opposition's view is on water security. We will, no doubt, hear that at some point.

THE CHAIR: Well, I am happy to provide some commentary on that. We wanted to see the dam built. The unfortunate point is that the cost that the government went to the election with of $145 million in 2008 simply was not true. Hundreds of thousands of dollars of ACTEW advertising were completed on the basis that the cost would be under $145 million. We now know that the full cost of the dam will be over $400 million, and we are now seeing that ACT residents are going to have to pay for their water to cover that blowout in the dam. So, yes, we need water security projects, but, no, we do not want to see them triple in cost. I hope that provides you the clarity you are after, minister.

Mr Barr: I think that shows your complete ignorance of the regulatory process and, in fact, your lack of understanding about anything to do with economics in this city and explains why you have chosen not to take on any economic portfolios.

THE CHAIR: I understand that your government said that the dam would cost $145 million and it now costs us $400 million.

Mr Barr: I understand why you and your deputy leader shy away from economic issues, and that is exactly why. We know exactly why now, because that statement just demonstrates your appalling lack of understanding of regulatory processes, of the prudent decisions that were made to invest in the dam that have been accorded by the ICRC as prudent and efficient. It has been through that process twice now, and the Leader of the Opposition still suggests that the ICRC have somehow got that wrong.

THE CHAIR: Let me ask you a very simple question, then, Mr Barr: did the ACT government go to the 2008 election saying that the cost of the dam would be $145 million or not?

Mr Barr: The ACT government in determining to support—

THE CHAIR: Yes or no.

Mr Barr: in determining to support—

THE CHAIR: Yes or no.

Mr Barr: in determining to support the dam—

THE CHAIR: Yes or no.

Mr Barr: made a determination that that project would go ahead. When the project was approved, the cost was $363 million. When the flood occurred, the cost of the project increased. Everyone is aware of the circumstances that those who were constructing the dam faced as a result of that flood. So it moved from $363 million to just over $400 million as a result of the flood.

MR SMYTH: How much did the flood add to the cost?

Mr Barr: According to ACTEW, it moved from $363 million to a little over $400 million.

MR GENTLEMAN: So, minister, if those costs were reasonable, then the ICRC would not call it prudent and efficient, surely?

Mr Barr: That is correct. It has been independently assessed twice now.

MR SMYTH: All of the cost increase from $363 million to $405 million is attributable to the flood, is that what you are saying?

Mr Barr: That is my understanding of what ACTEW have indicated.

THE CHAIR: Yes or no. You are the shareholder. You are responsible. Have you checked that that is correct?

Mr Barr: That is the advice that has been provided.

THE CHAIR: You have accepted advice before and got it wrong, have you not? ACTEW advised that the dam would cost $145 million; it is now $409 million. Did you check on that or did you just take that advice then?

Mr Barr: That is not a question to me; I was not around at that time of taking that advice.

THE CHAIR: The ACT Labor government, were they wrong in accepting that advice?

Mr Barr: Projects, as they go through their development stages and get closer to a construction phase, will, of course, have changes in their price. When the decision was made to proceed with the dam, the price was $363 million.

THE CHAIR: What assurances have you made—

DR BOURKE: What will be the benefit to the ACT community of the—

THE CHAIR: Just hold on, Dr Bourke.

Mr Barr: Obviously there will be a considerable boost in terms of water security.

THE CHAIR: Mr Barr, I will finish my line of questioning, thank you. I know you are trying to avoid it. I know you do not want to answer this question.

Mr Barr: And there will be the opportunity for—

DR BOURKE: Stop interrupting him.

Mr Barr: for this city—

THE CHAIR: I know you do not want to answer this question.

Mr Barr: to grow into the future, Dr Bourke. And I think the importance, obviously, of that investment, not just in the dam but in a number of other water security projects, gives confidence to the city and to every household and every business operating in Canberra that we will have sufficient water to meet our ongoing needs and that there is capacity for further growth in the city as a result of these investments.

The savings that have been achieved across the other water security projects are significant. And we certainly look forward to ACTEW being able to provide full information in relation to all of the savings that have been achieved across other projects because, of course, none of that gets the attention, obviously, that the flood did in terms of the cost of the dam.

THE CHAIR: Mr Barr—

DR BOURKE: A decision which has been endorsed by the ICRC?

THE CHAIR: Shush.

Mr Barr: That is correct.

THE CHAIR: Please.

Mr Barr: The ICRC—

THE CHAIR: Dr Bourke, I know you are trying to cover for your minister, but I will ask this question and I will receive an answer please, Mr Barr.

Mr Barr: sought on a number of occasions to examine the situation in relation to the dam and have done so twice now and indicated that it was prudent and efficient.

THE CHAIR: Mr Barr, the cost increase from the $363 million to the $405 million or thereabouts, you are saying, is attributed to the flood. What assurances and what work have you done to make sure that what you have been told by ACTEW is correct and that all of that amount is attributable to the flood?

Mr Barr: Obviously those processes are still to conclude in terms of the board's independent assessment. They will make their final assessments and report to shareholders.

THE CHAIR: What have you done?

Mr Barr: And we have—

THE CHAIR: So you have not—

DR BOURKE: Stop interrupting him.

Mr Barr: We have, of course, met with the board to discuss these and other issues. And we will continue that engagement.

THE CHAIR: And what have you done? What analysis have you done? What questions have you asked? Are you confident that all of that amount is attributable to the flood?

Mr Barr: We will continue to work with the board and ACTEW in the delivery of the project. There will be further assessments, obviously, once all of the receipts in relation to the project are in. There is significant scrutiny, obviously, of the dam through independent processes, including the ICRC and also through our board. And we have a board in place for ACTEW in order to run this business. It is not the business of the shareholders to run ACTEW.

THE CHAIR: Mr Gentleman.

MR GENTLEMAN: Minister, how long has ACTEW paid 100 per cent of its dividends back to the ACT government?

Mr Barr: Throughout its history. So it has been the policy of both sides of politics for 100 per cent of dividend to be paid.

MR GENTLEMAN: And is there any reason to change that policy?

Mr Barr: Not at this point in time, no.

THE CHAIR: Mr Smyth.

MR SMYTH: Minister, are you happy with ACTEW carrying the levels of debt that it has, with no ability to pay it back?

Mr Barr: ACTEW has a debt level that is consistent with other utilities.

MR SMYTH: That is not the question. Are you happy with the level of debt that they have and their inability to pay it back?

Mr Barr: Yes, I am comfortable with the level of debt that the utility has, as it is consistent with other utilities. All utilities have debt. All utilities will always have debt.

MR SMYTH: When would you expect that it would pay off the dam?

Mr Barr: Over time. It is an asset with a 100-year life.

MR SMYTH: Okay, $8 million paid a year, that is over $1.4 billion—

Mr Barr: But you are suggesting that the dam is the total of all ACTEW debt, which is not the case.

MR SMYTH: All the water security projects and the dam.

Mr Barr: And all previous debt, including debt incurred under your time in government.

MR SMYTH: And what was the debt level in our time in government as opposed to—

Mr Barr: Much lower, because it was a much lower asset base. You had no assets, or very few assets compared to what the organisation has now. It was a much smaller city in your time in government. It was not growing as fast. It was not going as well.

MR SMYTH: So you as a shareholder are happy with the path that ACTEW is on now?

Mr Barr: Indeed, yes.

MR SMYTH: When did you become a minister?

Mr Barr: A minister?

MR SMYTH: Yes, when did you become a minister?

Mr Barr: In 2006.

MR SMYTH: And did the dam project, the water security projects, go before cabinet for approval?

Mr Barr: On a number of occasions, yes.

MR SMYTH: So you voted to approve those projects?

Mr Barr: I supported the water security projects in cabinet, yes.

MR SMYTH: So when the government took the cost of the dam as $145 million to the 2008 election, you were happy with that costing?

Mr Barr: The information that was provided at that time was, of course, subject to further review once the project got closer to construction. When cabinet took the decision in order to support that water security project, the project was costed at $363 million.

MR SMYTH: So you are happy with the decision of cabinet before the 2008 election to tell the people of the ACT that they would build a dam for $145 million?

Mr Barr: The information that was provided to cabinet at that time was made public. Further information—

MR SMYTH: You are happy with—

Mr Barr: Further information was later provided and before the project went ahead, that new information was provided.

THE CHAIR: Was that information provided before or after the election?

Mr Barr: I cannot remember.

THE CHAIR: It would be pretty important if you got advice that the dam was going to increase in cost and then—

Mr Barr: I would be fairly certain it would be afterwards, but I will check that—

THE CHAIR: Are you? Do you say, Mr Sullivan, you are unaware of a letter—

Mr Barr: I will check that date for you.

THE CHAIR: If ACTEW had advised the government that the cost of that dam was going to increase significantly and then the government did not bother telling the community, that would be pretty outrageous, would it not?

Mr Barr: The government's determination of when to proceed with the project was made when the project was costing more than that original estimate.

THE CHAIR: There are plenty of statements in the lead-up to the 2008 election where Mr Stanhope said that this dam was going to be built. The decision had been made.

Mr Barr: The final decision to go ahead was made later.

THE CHAIR: The final final decision? I do not think that was enunciated before the election, was it?

MR COE: Not in the TV ads.

THE CHAIR: No, $370,000 of TV ads.

Mr Barr: I do not recall what Mr Stanhope may or may not have said seven years ago.

MR COE: Not a single asterisk in those TV ads "conditions apply".

THE CHAIR: Mr Coe, do you have a question?

MR COE: Minister, what communication did you have with the ICRC between the draft determination and the final determination?

Mr Barr: I received a letter from them outlining requests for further information and the government knew, particularly on return on equity, that they had proposed in their draft determination it be 10 per cent, and they sought our view on that and we responded.

MR COE: So there was only one piece of communication?

Mr Barr: There may have been other meetings with officials, potentially, and information sought in relation to ACTEW. But directly from me, I can recall certainly that piece of correspondence. I am happy to check the record if there are any others and provide that. But it was not significant. On one or two occasions they would have sought information or a view from government.

MR COE: What ministerial oversight do you have of the ICRC?

Mr Barr: They are an independent commission, but I do, obviously, appear as the minister for the purposes of estimates and annual reports.

MR COE: So why did you sit next to the ICRC officials today?

Mr Barr: It is my understanding that it is standard practice that a minister attends a hearing with an agency that sits within their portfolio, and I have done so with independent commissions and statutory authorities throughout my time as minister in variety of different portfolios.

MR COE: I do not believe the Auditor-General appeared with a minister beside him. Why would that be?

Mr Barr: I understand the Auditor-General's position is somewhat different from the ICRC's position.

MR SMYTH: In what way?

Mr Barr: I will need to check the detail of that, but I have always attended with the ICRC.

MR COE: It seems a bit interesting to me that you are fiercely defending the independence of the ICRC and fiercely saying that you did not strong-arm the ICRC into making its determination. Yet here you are—

Mr Barr: It is pretty insulting to the ICRC to suggest that that would be the case.

MR COE: Why are you appearing with the ICRC if they are an independent body, if you—

MR GENTLEMAN: Mr Chairman, did we not call the Treasurer to appear before us today?

THE CHAIR: We did not actually specify. We invited the ICRC.

MR GENTLEMAN: He is on our note here, "Minister Barr attending from 10.30 to 12 o'clock." Did we not call him?

DR BOURKE: Has anybody ever raised this with you before? Has Mr Coe ever raised this with you before? Mr Smyth? Mr Hanson?

Mr Barr: No, this is the first time it has ever been suggested. In every other hearing I have attended, annual reports and otherwise—if you do not want the ministers to attend estimates hearings, then, no, by all means go down that path.

MR COE: No, I am curious to understand the relationship. I think it is quite reasonable for me to question you about the relationship you have with the ICRC and why that might be different to the relationship that the Auditor-General has with cabinet ministers.

Mr Barr: I will take some advice on the differing acts in terms of ministerial oversight, but if the suggestion is that the Treasurer not appear with any of the agencies—

MR COE: I have not made any suggestions. I have asked you questions.

Mr Barr: I will seek some advice on that.

MR COE: Thank you. What advice have you received as to the explanation why the dam costs have increased from $363 million?

Mr Barr: Sorry? What?

MR COE: What has been the advice you have received as to what is the reason—

Mr Barr: I covered that extensively in the Assembly through a series of statements.

MR COE: You might like to remind the estimates committee.

Mr Barr: I am happy to provide all of those statements for the committee.

DR BOURKE: Perhaps, minister, you could tell us as a shareholder what is the next step in examining the ICRC's recommendations on governance?

THE CHAIR: Is that a supplementary? We will move to you in a minute, Dr Bourke, thank you. Minister, we have seen a series of issues now with ACTEW. We have seen the misreporting of the salary and the significant controversy—

DR BOURKE: Is that a supplementary?

THE CHAIR: about the general manager's salary.

Mr Barr: No, it would appear not. It is one rule for some and a different rule for others, Dr Bourke, clearly.

THE CHAIR: We have seen the resignation—

MR COE: Do not cast reflections on the chair, minister.

THE CHAIR: We have seen the resignation of the chair. We have seen the dam blow out, triple in price, hundreds of millions extra. We have seen the community misled about that price in the lead-up to the 2008 election. We have seen these latest issues with regard to water pricing and now we have got the impact on the budget and the dividend, concerns raised about levels of debt that have gone up significantly. Why do you still refuse to support a full performance audit of ACTEW by the Auditor-General?

Mr Barr: The Auditor-General is, in fact, the auditor for ACTEW and undertakes that work.

THE CHAIR: A performance audit.

Mr Barr: ACTEW is the subject of a number of reviews at the moment in terms of governance and otherwise. And those processes will complete themselves.

THE CHAIR: That does not really give a satisfactory answer. There are a lot of problems here, a lot of concerns, and you seem to be wanting to avoid that level of scrutiny.

Mr Barr: No, I think there is a significant level of scrutiny. You may be unhappy with that, but it is not my problem. There is sufficient level of scrutiny of ACTEW. There are a number of processes already underway, and they will report in due course.

THE CHAIR: Dr Bourke.

DR BOURKE: I will return to my question. Treasurer, as a shareholder, what is the next step in examining the ICRC's recommendations on governance?

Mr Barr: We will have a look at the detail of the ICRC recommendations. The commission itself has indicated that this is not something that we would anticipate a quick response on. It will need to be considered in the context of a number of other reviews that are underway. And we will look at those over the balance of this calendar year. I would anticipate having more to say on that closer to the end of 2013.

THE CHAIR: Mr Gentleman.

MR GENTLEMAN: Minister, earlier today the commission said that one of the factors that they looked at in this determination was the population of the ACT and the way that will grow and, therefore, increase payments for ACTEW and water over time. How is the ACT's population growth going, and what do you see for the future?

Mr Barr: We just recorded a population growth increase, according to the ABS, of 2.3 per cent. We started our centenary year just short of 380,000 people. We have got to about the 380,000 mark about four years earlier than the 2009 demographic work was indicating would be when we would reach that level of population. So we have had a period of significant above national average population growth. It obviously assists in terms of addressing some of the economies of scale or diseconomies of scale that we experience as a jurisdiction.

With regard to many of the fixed costs that go with provision of services, the more people who live in your jurisdiction, the more those fixed costs are spread over a larger number of people. There are, of course, some marginal costs associated with increased population. The extent of those marginal costs depends on the extent to which existing infrastructure can be utilised to accommodate that additional population.

So without straying significantly into a planning and urban renewal debate, which I am sure the committee has examined extensively over the last couple of weeks, I think it is fair to say that above national average level of population growth, appropriately accommodated within the city footprint and within the designated urban growth areas that have been outlined, certainly improves the economic efficiency of the city. As I say, the more of those fixed costs that go with the operation of the city that can be spread across a larger population, obviously the more efficient our operations are compared with other jurisdictions.

MR GENTLEMAN: Do you think, if you take those other factors into consideration, that reiterates the ICRC's position of ACTEW operating prudently and efficiently?

Mr Barr: Absolutely. The context in which the ICRC makes its determinations on which investments are undertaken in infrastructure is sensible, rational and sound. And in spite of all of the attempts to whip up some sort of crisis that we have seen this morning, there is everything to suggest that this city's economic growth, its population growth and its infrastructure are being delivered efficiently and effectively, that our population is growing because people want to live in Canberra because it is a great place to live.

Our economy is growing, and we have the fastest rate of small business growth of any jurisdiction in Australia. There are many reasons to be optimistic about the future of this city and this economy, and I think the policy settings we have in place now through prudent investment in infrastructure will allow for that population at above national average population growth to be sustained. Clearly the greatest risk to that is the election of an Abbott government and 20,000 jobs being cut from Canberra.

MR SMYTH: That is going on now.

Mr Barr: But we know, though, that in recent times it will be a tighter contest than what might have been presumed when we began the estimates process.

THE CHAIR: I do note, in handing over to Mr Smyth, that your current Prime Minister—we do not know one which will be at the election because it seems to change quite regularly—said that he wanted to take a meat axe to the federal public service. So let us hope that Kevin Rudd, if he were to be successful in September, does not take a meat axe to the federal public service. Mr Smyth.

MR SMYTH: Minister, will you modify any aspects of the budget before you bring it back on in August, given the determination that has been handed down?

Mr Barr: I do not believe that will be necessary at this stage, no.

MR SMYTH: So you would expect the budget to be passed with what we now know to be incorrect estimates in the document?

Mr Barr: I think the totality of the budget is sound. There are obviously changes that occur during a financial year and the appropriate time to update those is in the mid-year update.

MR SMYTH: Given you have now said that there is between a $20 million and a $25 million dollar shortfall potentially this year and further shortfall in the outyears, how will you accommodate that?

Mr Barr: There is movement in a variety of areas of the budget from the time it is delivered until the final June quarter and final audit of the budget, and it would be my expectation that there would be further movement in a variety of different lines. The timing of commonwealth payments, timing of dividend payments, can all impact and potentially net each other out over the course of the fiscal year.

DR BOURKE: That would be why they are called estimates, would it not?

Mr Barr: Indeed.

MR SMYTH: Given the litany of interesting things that have occurred with ACTEW in recent times that the chair has outlined, have you as a shareholder gone about your duty with all due diligence?

Mr Barr: Of course.

MR SMYTH: And you are happy with the outcomes that ACTEW has currently delivered?

Mr Barr: ACTEW is of course the subject of some elements of review. We are looking at governance, for example, and we have in train the process that I believe will ensure that ACTEW continues to provide cost-effective, high-quality services to the people of Canberra.

THE CHAIR: Members, I appreciate that there are many more questions that you do want to ask. I ask that you put those questions on notice. Minister and officials, thank you very much for attending today. If there are questions on notice that you have taken either today or you receive, you should make sure that they are provided to the committee secretariat within five days. Thank you very much.

The committee adjourned at 11.59 am.