

GENERAL PURPOSE STANDING COMMITTEE No. 5

Friday 27 July 2001

Examination of proposed expenditure for the portfolio area

SYDNEY WATER

The Committee met at 3.00 p.m.

MEMBERS

The Hon. Richard Jones (Chair)

The Hon. Jan Burnswoods
The Hon. Don Harwin

The Hon. John Johnson
The Hon. John Ryan

PRESENT

The Hon. K. M. Yeadon, *Minister for Information Technology, Minister for Energy, Minister for Forestry and Minister for Western Sydney*

Sydney Water

Mr Alex Walker, *Managing Director*
Mr David Halliday, *Ministerial Advisor*
Mr Allan Henderson, *Manager, Capital Projects*
Mr Ron Quill, *General Manager, Asset Solutions*

CHAIR: I declare this meeting open. I welcome you to this public hearing of General Purpose Standing Committee No. 5 and thank the Minister and departmental officers for attending today. At this meeting the Committee will examine the proposed expenditure for the portfolio area of Sydney Water. Before questions commence some procedural matters need to be dealt with. Part 4 of the resolution referring the budget estimates to the Committee requires evidence to be heard in public. The Committee has previously resolved to authorise the media to broadcast sound and video excerpts of the public proceedings. Copies of the guidelines for broadcasting are available from the attendants.

I point out that in accordance with the Legislative Council's guidelines for the broadcast of proceedings only members of the Committee and witnesses may be filmed or photographed. People in the public gallery should not be the primary focus of any filming or photographs. In reporting the proceedings of this Committee the media must take responsibility for what you publish or what interpretation is placed on anything that is said before the Committee. There is no provision for members to refer directly to their own staff while at the table. Witnesses, members and their staff are advised that any messages should be delivered through the attendant on duty or the Committee clerks.

For the benefit of members and Hansard, I ask that departmental officials identify themselves by name, position and department or agency before answering any question referred to them. Where a member is seeking information in relation to a particular aspect of a program or a subprogram, it would be helpful if the program or subprogram were identified. The Committee has agreed to the following format for the hearing.

The Hon. JOHN JOHNSON: At the outset, could I suggest that you note that these proceedings started 10 minutes late and that the Minister had made himself available from 3.00 p.m.

CHAIR: The Opposition will ask questions for 45 minutes, I will ask questions for 15 minutes, the Government members may wish to ask questions at that point, and then we will return to the Opposition.

Mr YEADON: How long is that in toto, Mr Chairman?

CHAIR: We are planning to meet for the two hours. You obviously have to go at a quarter to four; is that correct?

Mr YEADON: Yes.

CHAIR: We are planning to go for two hours unless we run out of questions.

Mr YEADON: I would like to make a preliminary comment, if I may.

CHAIR: Please do.

Mr YEADON: On 29 May this year the Legislative Council resolved that the budget estimates and related documents presenting the amounts to be appropriated from the Consolidated Fund be referred to the general purpose standing committees for inquiry and report. With this in mind I attended the initial hearing of the Committee on 22 June this year with Sydney Water's managing director and was told that the Committee would not consider Sydney Water's budget estimates. Today I have again attended this Committee to respond to questions relating to Sydney Water's budget estimates.

I hear what the Committee has said about sitting for a duration of two hours but as I have indicated in correspondence to you, I am only available for 45 minutes. I have tried to make myself available to the Committee for a second time but I put on record that I believe it is inappropriate for the Committee to continue to deliberate in my absence. This is about Ministers coming before these committees.

I am concerned also about the approach of the Committee in that certainly I have a number of portfolios but I am not a unique Minister in that regard. The committee process makes it clear that there is a two-hour block for each Minister, not for each portfolio. I am not aware of other committees extending their deliberations in a similar way to this Committee. It seems to me that it is outside the scope of the Committee; otherwise committees, if they wished, could resolve to meet eight hours a day five days a week for every day of the year and that, certainly, is not within the provisions of this process, in my view. I make it clear to the Committee that I disagree with its approach.

I received a range of preliminary questions from this Committee which relate to the Northside Storage Tunnel. Given that the Northside Storage Tunnel does not appear in the budget papers, I believe it to be rather anomalous for the Committee to decide to conduct detailed questioning on this project. I simply reiterate the

suggestion I made in my letter to the Committee yesterday. The matter is not related to the budget estimates and members of the Committee are welcome to write to me at any time seeking information on any matters in relation to the Sydney Water Corporation.

The Committee has provided me with an advance copy of some of the questions and I note that the majority of those questions relate to the Northside Storage Tunnel and these questions were also comprehensively addressed, I believe, during the inquiry by this Committee into the Northside Storage Tunnel and the Scotts Creek vent. Additionally, many of these questions are of a technical nature and from first look would require significant investigation.

I would also like to say at this point, being conscious of the need to protect Sydney's valuable waterways, that the New South Wales Government has developed a comprehensive waterways package to clean up the harbour, bays, rivers and beaches of our State. A key component of that package is the Sydney Water Corporation's Water Plan 21 "A vision for sustainable water management across the entire Sydney region".

The Northside Storage Tunnel is an early action measure identified by Water Plan 21 to improve water quality in Sydney Harbour. Instead of allowing diluted sewage to overflow from the northern suburbs ocean outfall sewer [NSOOS] into local waterways during and after wet weather, the majority of these overflows will be captured in large deep tunnels and treated at the northside treatment plant.

Tunnelling was completed, as you all know, on 16 July 2000 and the tunnel has since been commissioned. The tunnel is 4,200 metres below sea level and runs for about 20 kilometres between Lane Cove River in the west and the North Head sewage treatment plant in the east. Most of the time the tunnels will be empty but after wet weather the tunnels will temporarily store up to 480 million litres of rainwater and diluted sewage that would otherwise flow into Lane Cove River, Middle Harbour, Sydney Harbour and other local waterways.

This project aims to reduce sewage overflow events at the four biggest overflow points into the harbour by some 82-90 per cent of volume. I am advised that overflows will now occur on average only twice per year at each site in the most severe weather conditions, compared with about 20 times per year before the tunnel. Sydney Water and the alliance partners, TransGrid, Connell Wagner and Montgomery Watson have constructed the tunnel, as you would be aware.

CHAIR: Minister, I have not declared the meeting opened yet for questions.

Mr YEADON: I indicate that it has captured two billion litres of sewage since it has been operating.

CHAIR: I think we know everything you have said already. The Committee is able to invite you, but not compel you, to come before us. You accepted our invitation to come here for 45 minutes today.

Mr YEADON: Reluctantly.

CHAIR: We are able to move motions to have hearings for two hours, four hours or six hours if we choose to do so as a Committee and we can summons your officers to come before us at any time if we want. We can have day after day of hearings if the majority of members are of that view. There are no fixed rules.

The Hon. JAN BURNSWOODS: I would like to point out that a minority of members certainly opposed this sitting of the Committee.

CHAIR: Please do not interrupt. We did not fix the two hours, Minister. That was fixed for us. We did not agree with the two hours; we did not have a time. Minister, you have a number of portfolio responsibilities which we were not able to deal with in the two hours that were allocated last time. I regret that the Committee has had to ask you back again. It is a pity, but we had to do it because we did not have enough time for questions last time.

If required, we can call for additional hearings to which you will be invited, but which you might not attend. However, your colleagues would have to attend those hearings if they were summonsed to do so. Committee members can ask questions about any area of the Minister's portfolio responsibilities, whether or not they are in the budget. I declare the budget estimates open for examination.

The Hon. JOHN RYAN: Minister, you have already made some comments about the northside storage tunnel. Has construction work on the tunnel been fully completed?

Mr YEADON: It has been completed and commissioned. In the process of that commissioning we identified that some of the concrete work in the tunnel invert, which is basically the tunnel floor, was breaking away because of a rail line at the bottom of the tunnel. That problem was identified late in the commissioning stage. Work has now commenced to rectify that problem. Reconcretion of the entire floor, or the tunnel invert, is currently under way. That is the only outstanding issue.

The tunnel can be made operational immediately. In other words, the work force and equipment can be removed from the tunnel and the tunnel can be used immediately. So that work, which is under way, is in no way inhibiting the operation of the tunnel. As I said earlier, that is the only outstanding work for the completion of the tunnel.

The Hon. JOHN RYAN: What is the full cost of the tunnel? On the last occasion that we examined this issue my recollection is that we were given only an estimate. How much has the tunnel cost? Does that cost represent the full and final cost of the tunnel?

Mr YEADON: Sydney Water is currently in the process of selling a range of major plant and equipment, including three large tunnelling machines, which were used in the construction of the tunnel. In addition, several significant insurance claims are presently being processed for the recovery of costs relating to a number of insured events that occurred during construction work. A final figure cannot be determined until revenue from plant and equipment sales and insurance claims is realised.

I am advised that the final cost will not be known until the process is completed. The process is expected to be completed in the near future. However, the cost is expected to be of the order of \$450 to \$460 million. We need to establish what revenue will be available as a result of the sale of plant and equipment and the finalisation of insurance claims.

The Hon. JOHN RYAN: Does that cost include the work that you were referring to a moment ago—the need to reconcrete the invert?

Mr YEADON: Yes, it does.

The Hon. JOHN RYAN: Is that is one of the insured events to which you were referring?

Mr YEADON: Yes, it is.

The Hon. JOHN RYAN: Is the tunnel fully operational now? If so, how many times has it been operated?

Mr YEADON: Yes, it is fully operational now, notwithstanding the work that is occurring to reconcrete the invert. Since commissioning, the tunnel has captured wet weather sewage overflows on 15 separate occasions and, as I said earlier, it has prevented some three billion litres of diluted sewage from entering Sydney harbour. That represents three billion litres of diluted sewage that did not pollute our environment and, in particular, the harbour. The first overflow event, which occurred on 31 January this year, was a major event which lasted for four days. During that period there was intense rain in Sydney and the inflow to the tunnel occurred at each of the overflow locations, that is, Lane Cove, Scotts Creek, Tunks Park and Quakers Hill Bay.

I am advised that the tunnel has generally performed as designed. On this initial occasion, after the tunnel was full, overflows to the environment occurred for a short period. There have been 14 subsequent events in the period from 3 January until 14 July and the tunnel has successfully intercepted possible overflows. The first half of 2001, which has been quite wet, corresponds to 1988, the second wettest year in the 10-year period used for the design of the tunnel.

The 13 events until June are nearly 50 per cent higher than those expected in an average year. The tunnel is being finetuned to ensure that it is operating to its maximum potential. So there is finetuning of things such as controls, valves, pumps and ventilation equipment. That work could result in improvements to the performance of the tunnel.

Additionally, operators will need further time to become familiar with sophisticated equipment to ensure optimum operation of the tunnel. The tunnel, of course, is a major component of the Government's waterways package. To summarise, the tunnel has worked to expectations. We have had a trial by fire, if you like, in that the first half of this calendar year has been wet and the tunnel has performed very well. As I said earlier, with further finetuning and familiarity of plant and equipment by tunnel operators, we will see improvements over time.

The Hon. JOHN RYAN: On how many occasions has the vent at Scotts Creek operated?

Mr YEADON: I am not sure. I will have to take that question on notice. I know that all four vents worked on the first occasion in January. But I do not know the break-up of inflows. There were no overflows other than on that occasion. However, I would need to check whether Scotts Creek was an inflow during any or all of those periods.

The Hon. JOHN RYAN: What procedure is followed to inform the nearby Glenaeon school when the vent operates?

Mr YEADON: Sydney Water has had regular contact with the Glenaeon Rudolf Steiner School since the commencement of wet weather commissioning on 31 January this year. A representative of the school rings Sydney Water on a daily basis, except for weekends and during school holidays. Sydney Water supplies information on ventilation activity and other relevant commissioning information. Sydney Water has supplied information in writing to the school on venting times at Scotts Creek for the information of parents and teachers. Since 31 January 2001 Sydney Water has received inquiries about the vent operation at Scotts Creek from a total of eight people.

Sydney Water, which has remained in contact with the community, took a group of representatives from the Scotts Creek community on a site inspection of the ventilation system on 16 February this year. In addition, community representatives visited Sydney Water's strategic operations centre where the wastewater system, including the operation of the tunnel, is monitored 24 hours a day.

Overall, there has been a high level of community consultation on this project. Since late 1997 the project has held 330 formal meetings with councils and community groups and has conducted over 100 site visits for local people, councillors and members of Parliament. There have been over 20,000 letterbox drops and 10,539 hits on the web site in relation to this matter, over 8,000 emails have been circulated by the project team, and 300 local residents were surveyed about the project on three separate occasions.

The Hon. JOHN RYAN: You mentioned that a representative from the school rings Sydney Water. Why does Sydney Water not contact the school? Is that just because the school rings Sydney Water first?

Mr YEADON: I think that has been the arrangement that has settled into place. There is some difficulty with undertaking to inform the school on each and every occasion and at precisely the time that it comes into operation. For example, it could be 3.30 in the morning. I am not sure that anybody in the community or from the Rudolf Steiner School would wish to have contact at that time of the morning.

The Hon. JOHN RYAN: How much in dividends and tax equivalents will Sydney Water pay to Treasury in the year 2000-01?

Mr YEADON: It is probably a question for the shareholding Ministers, but I will speak to it. Sydney Water operates in a commercial manner and provides a commercial return to its shareholder—which is the New South Wales Government on behalf of the taxpayers—on the State's investment in the corporation. The payment of a dividend is annually negotiated between the corporation's board of directors and its shareholders.

The dividend strategy is consistent with Sydney Water's core objectives to run a successful business, to exhibit a sense of social responsibility by having regard to the interests of the community, to protect the environment in accordance with ecologically sustainable development principles, and to protect public health by supplying safe drinking water.

The Government contributes to the cost of Sydney Water's non-commercial activities through social program funding directly from the State budget. These activities include rate rebates to eligible pensioners, valued at about \$300 per pensioner household per year. When last in office the Coalition had a poor record on this matter. It is, after all, the same Coalition that introduced the special environment levy—the \$80 that everybody had to shell out and we never saw again! I think it went to direct dividends into Consolidated Fund. So you are probably on shaky ground with this question. It is the same Coalition that more than 4½ years ago slugged customers with a \$80 increase in their bills, and it is the same Coalition that ripped an additional dividend of \$100 million out of the Water Board, roughly equivalent to one year of special environment levies.

The Hon. JOHN RYAN: Minister, has the new dividend for the year 2001-02 been negotiated? If so, what will it be?

Mr YEADON: It is a shareholder matter, but I do have some information on that matter. Sydney Water's dividend payment in 2001-02 in the budget papers is estimated at \$61 million, an increase of 7 per cent on the 2000-01 forecast dividend. Sydney Water also makes financial distributions by way of income tax equivalent payments. The budget papers include within the Water and Waste Services Group an estimated income tax expense for Sydney Water for 2001-02 of \$97 million. I think that is pretty well all I have. Otherwise, you will have to forward the question to the Treasurer.

The Hon. JOHN RYAN: I wish to ask you a number of questions that relate to the report by the Water Services Association of Australia. Information in that publication would indicate that the number of breaks and leaks per 100 kilometres of water main have doubled over the past five years in Sydney Water between the years 1994-95 and 1999-2000. Are you or Sydney Water able to offer any explanation as to why that number of breaks and leaks per 100 kilometres of water has increased? And has any action been taken to bring that number back to previous levels?

Mr YEADON: Since 1996-97 Sydney Water's performance in this area has in fact improved by almost 20 per cent. The date 1996-97 is significant. I am advised that Sydney Water spent \$135 million in 2000-01 on maintenance work, and that the same amount will be spent in 2001-02. In addition to these maintenance programs, I am advised that \$135 million will be spent in 2001-02 on asset renewals which will extend the lifespan of the corporation's infrastructure.

One such example is the \$21 million refurbishment of the Woronora pipeline to repair leaking joints and to replace fittings. The combination of these maintenance and renewal programs will help to ensure that Sydney Water's assets will continue to provide continuous service to customers and to protect the public health and the environment.

The short answer to your question is yes, we are doing something about it. We have been doing something significant about it since 1996-97, when we came to office. I think the proof of the pudding is in the eating; there has been a 20 per cent improvement in this area since Labor came to office. That is probably because we are not ripping \$100 million in dividends out of the system and charging customers \$80 and running away with that as well. We are actually spending the money on the job.

The Hon. JOHN RYAN: Minister, what is Sydney Water doing to reduce the number of sewer main breaks?

Mr YEADON: Sydney Water's performance since 1994-95 has improved by 25 per cent. It is a very similar story across all of these areas. It is demonstrating a trend of continual improvement in this area. Sydney Water's commitment to quality and service is exhibited in the attention paid to maintenance and the renewal works on its extensive network of assets. That is an extraordinarily extensive network of pipes and assets. I am advised that Sydney Water spent \$135 million in 2000-01 on maintenance work, and that the same amount will again be spent this year.

In addition to those maintenance programs, I am advised that \$135 million will be spent in 2001-02 on asset renewals which will extend the lifespan of the corporation's infrastructure. An example in this area is that a total of 50 kilometres of sewers will have been relined in 2000-01, at a cost of around \$20 million. The work was done across Sydney, concentrating of course on areas that have a high choke frequency and surcharges into private property. It is planned to complete another 75 kilometres of lining, at a cost of approximately \$25 million, in the upcoming financial year 2001-02.

The combination of these maintenance and renewal programs will help to ensure that Sydney Water's assets again continue to provide continuous service to customers and to protect public health and the environment. Again it is significant that since 1994-95 there has been an overall improvement of 25 per cent in this area. Again I think that is not without good reason. This Government is actually committed to looking after these infrastructure items on behalf of the customers of Sydney Water. Both Sydney Water and the Government are committed to that process.

I would also add that the Water Services Association of Australia's most recent report provides an overview of the Australian urban water industry. The report covers a wide range of measures in the areas of customer usage, health and environment service performance and infrastructure performance. Taken as a total package, the report shows that Sydney Water is operating well and demonstrating improvement in its management of the water and sewerage systems. In many areas Sydney Water is in fact setting the agenda for other organisations to follow, and it is improving its overall performance.

For example, 97 per cent of sewage biosolids is reused. That is way above the national average of 77.5 per cent. Interruptions to water supply are also significantly below the national average; in fact, about half the national average. Sydney Water is now spending \$456 million on capital works, in contrast to the miserly \$184 million in the Coalition's last year of government—no doubt again as a result of that \$100 million being ripped out of the system. Sydney Water's capital expenditure represents \$4 in \$10 spent in Australia and represents the Government's commitment to putting more resources than ever before into cleaning up our urban waterways and ensuring a top-notch customer service.

The Hon. JOHN RYAN: The report to which I have been referring makes reference to average interruptions to waste water services. That report seems to indicate that the number of interruptions to waste water services, particularly in the last year, have gone from 1 hour and 12 minutes to 4 hours and 2 minutes. That appears to be a significant increase. Is something happening to cause that increase, because during 1994-95 it was in the order of two hours, and it is now up to 4 hours and 20 minutes? There were some improved performances just prior to that, but in the year 1999-2000 there appears to have been some difficulty. Has that problem continued, or has it been rectified?

Mr YEADON: Sydney Water's performance for waste water interruption frequency per 1,000 unplanned interruptions has improved from a result of 13.63 in 1997-98 to 8.89 in 1999-2000. Although Sydney Water shows a steady improvement, with a decrease in the average duration of unplanned interruptions for waste water over the past two years, interruptions showed an uncharacteristic increase in 1999-2000. This is attributed to the way Sydney Water has changed its calculation of the interruption duration and the outage time. These performance measures are now calculated from the time of the initial telephone contact, rather than from the time of arrival on-site, thus extending the result. This change is noted in a footnote under the table in the WSAA document. When the 1999-2000 figure is recalculated on the basis of time of arrival, as for previous years, the average duration of unplanned interruptions for waste water is in fact 1.75 hours per interruption. This is a good performance compared to the WSAA average, exceeding the majority of the field in that performance.

I also note that Sydney Water's water supply average outage time for unplanned interruptions is in fact one of the best in the country. Average outage time, in minutes per property, in 1999-2000 was 13 minutes. It was 12.8 minutes in 1988-89, compared with the WSAA average of almost 23 minutes. What we have done is put in place a more realistic calculation for dealing with interruptions. The initial one that was calculated from the time of arrival was probably put in place during the Coalition's time.

The Hon. JOHN RYAN: Minister, you referred to the capital works budget. My recollection is that there was to be a significantly increased reliance by Sydney Water on borrowings over time. Can you give the Committee some indication of what the reliance on borrowings will be for the forthcoming financial year?

Mr YEADON: Sydney Water has borrowed funds in the past. New borrowings were also undertaken in 1994 by the Water Board of \$50 million in a year. That was undertaken, of course, by the previous Coalition Government. So, clearly, the Coalition is not objecting. I would understand, to the concept of borrowing per se. It is then a question of how much borrowing is to be undertaken. Again it would appear not, because Sydney Water's gearing level is lower than comparable utilities in New Zealand and in the United Kingdom. I am advised that a recent water industry peer comparison undertaken by Standard and Poor's, involving a number of Australian, New Zealand and British water companies, showed an average gearing of around 32 per cent, with a number of those in the range of 30 to 50 per cent. I am advised that, by comparison, in 2002-03 Sydney Water will be modestly geared at around 21 per cent.

Like any commercial organisation, Sydney Water is making a commercial decision to fund new investment through borrowing, taking advantage of the relatively low cost of borrowing that is currently prevailing. Sydney Water's capital expenditure is designed to deliver significant improvements in environmental and public health outcomes, in line of course with the Government's waterways package.

Major areas of improvement include improvement in system reliability and upgrades, continuing the program of the sewer overflow abatement and installing sewers in priority unsewered areas in accordance with the Government's priority sewerage program. It is a question of what the Opposition wants—that Sydney Water does not undertake these environmental improvements? Would the Opposition prefer that Sydney Water does not undertake those public health improvements? Would the Opposition prefer that Sydney Water did not undertake customer service improvements? These programs will be delivered through a combination of continuing business reform, prudent borrowings and appropriate pricing to assist Sydney Water to develop levels of service required by customers, by regulators and, of course, by the Government.

The Hon. JOHN RYAN: Minister, I do not recall making any comment about whether there ought to be borrowings or not. I am just interested in how much there would be. Unless I missed it, I did not quite catch the amount.

Mr YEADON: I just thought that I would give you that gratuitous information.

The Hon. JOHN RYAN: I appreciate that.

Mr YEADON: I did say to you that in 2002-03, Sydney Water will be modestly geared at 21 per cent.

The Hon. JOHN RYAN: I must say that I am not quite sure that I understand what that means.

CHAIR: What is it in dollar terms?

The Hon. JOHN RYAN: Is it possible to give the amount in dollar terms?

Mr YEADON: I am sure that we can provide you with dollar terms. But percentages in gearing—if you are talking about gearing, having the dollar figure is not really all that important. It is really the percentage of the operation that is geared and that is the way that most people refer to these issues in discussing them.

CHAIR: Are we talking about \$2 billion or \$1 billion in borrowings? You do not have any idea at all?

Mr YEADON: I do not know off the top of my head. We will undertake new borrowings of \$170 million in 2000-01 and that will be geared at 20 per cent in 2001-02, and, as I said, 21 per cent by the time we reach 2002-03. You know, to have a big ballpark figure of \$170 million is nice, but what does it mean? It is really what is the percentage of the gearing against the rest of the operation—that is the only context in which those sorts of things make sense. I trust that satisfies the question, Mr Chairman.

The Hon. JOHN RYAN: Thank you. Minister, my recollection was that during the course of the current year or the financial year that has just been completed Sydney Water was going to undertake a significant restructuring and a reduction in the number of its staff. There has been a program but I have forgotten the name of it. It involved a significant number of redundancies. Could you provide the Committee with any information on the current number of staff in Sydney Water? Does that represent an increase or a decrease in the number of staff? Can you report on its success or otherwise and the financial details relating to the redundancy program?

Mr YEADON: Mr Chairman, the current workforce of Sydney Water is 3,641. There has been a program of reform within the corporation and I have indicated that in response to previous questions. The voluntary exit program resulted in 652 offers being accepted across Sydney Water and its subsidiary, Australian Water Technologies, in 1999-2000. But you need to note that during the last four years when the Coalition was in office, I am advised it oversaw 3,159 staff who left compared to a total of 988 under our Government over the past four years.

The Hon. JOHN RYAN: That is right. I now recall—

Mr YEADON: Your track record is much better than ours on this.

The Hon. JOHN RYAN: I now recall the name of the program, the voluntary exit program.

Mr YEADON: And it is voluntary, I might say. It is voluntary redundancy in the sense that we do not force or pull people out the door. It is a voluntary redundancy program. It is a very effective one, too. I would just reiterate that was 652 officers.

The Hon. JOHN RYAN: Can you supply the Committee with information of the cost of that redundancy package?

Mr YEADON: Could I refer you back to last year's estimates? You will find the answer in there. You asked the question last year and I gave you the answer then. I do not have it on me now, I do not think. But if you look in your last year's report, you will see it.

The Hon. JOHN RYAN: I am sure that that was an estimate for last year. I was asking for the actual result.

Mr YEADON: I will seek to convey that figure to you if it is different from the last time.

The Hon. JOHN RYAN: Did the voluntary exit program meet its target? My understanding was that there was a targeted figure for the number of exits. Did the program meet that target? The purpose, as I understand it, was to allow a restructure so that Sydney Water would perform better financially in the future.

Mr YEADON: It was a cost target, not a head-count target. That target was reached. Sydney Water or the corporation is satisfied with the outcome of that program.

CHAIR: You will take the question on notice about the precise figures, will you?

Mr YEADON: Yes. I will convey that to the Committee, Mr Chairman.

The Hon. JOHN RYAN: I may ask a few questions about Australian Water Technologies, which is a subsidiary of Sydney Water. Am I to understand that that company has now been wound up?

Mr YEADON: It has now been taken back into Sydney Water proper. There were various units and so forth that made up that organisation but it is no longer a stand-alone subsidiary. It has gone back under the umbrella of the Sydney Water Corporation.

The Hon. JOHN RYAN: Was there a cost involved in the restructure of the company?

Mr YEADON: Last year Sydney Water's board of directors commissioned a strategic evaluation of the structure of Sydney Water and of its subsidiary, Australian Water Technologies [AWT]. Earlier this year the board approved a new organisational structure to take effect from 1 July this year. As part of the restructure, some AWT businesses had been incorporated into existing Sydney Water divisions while a separate AWT Pty Ltd will continue delivering Sydney Water's expertise in external markets. I am advised that consultation with staff, unions and other key stakeholders will continue as part of the overall process.

Sydney Water's customers expect and deserve value for money. Sydney Water expects that the coming together of the two organisations will in fact deliver a better result for customers. I am advised that Sydney Water expects that the integration of AWT is expected to save around \$6 million annually. Additionally, I understand that future savings to operating expenses will be achieved from the elimination of duplications across the organisation, and that is very much in the information technology [IT] area, administration, corporate services and the like. I am assured that Sydney Water is confident that when it is subjected to its independent operational audit, the results will demonstrate that there has been no reduction in quality of services provided during the transition period and, indeed, out and beyond into the future under the new structure.

The Hon. JOHN RYAN: I note you said that it would result in future savings of \$6 million. I recall asking whether there was a cost involved in carrying out the restructure. I guess in terms of redundancies and so on, are you able to inform the Committee what costs were incurred by either AWT or Sydney Water in order to achieve future savings?

Mr YEADON: We have got the redundancy program which we can give you the figures for, but we really cannot disassemble a lot of the costs of bringing AWT back in. In other words, to quarantine them and say that this is precisely the cost as a result of bringing AWT back in under Sydney Water—it is not possible to distil that down.

The Hon. JOHN RYAN: Is there any way of calculating the number of staff—I suppose that \$6 million will give some indication of the number of staff involved that have been rationalised between the two operations—but is there any indication of what I suppose is called the full-time equivalent number of staff that have been reduced as a result of the rationalisation of the corporation and the company?

Mr YEADON: The redundancy program really did go a long way to put the corporation in general into the position that it desired to be in. There was a little bit of overlap. I do not have those figures with me. I can provide them to you but I indicate that the numbers are not substantial. This exercise is really about efficiencies and preventing duplication. The annual savings of potentially \$6 million will far outweigh any cost of bringing the company and the corporation back in together.

The better question would be how much money had been wasted over the past few years as a result of the futile exercise of the Coalition Government breaking AWT away in the first instance. Clearly that came to be seen as an unsatisfactory arrangement and this Government was forced to bring AWT back in under the Sydney Water umbrella. If you really want to know where the waste is and all the rest of it, it has probably been in the exercise

undertaken by the Coalition Government some years ago in setting up that subsidiary to, as I understood it, simply flog it off.

The Hon. JOHN RYAN: You talked about a continuing entity of Australian Water Technologies that services—

Mr YEADON: External markets only.

The Hon. JOHN RYAN: Yes. Does that entity pay to the Government a dividend separate and distinct from the dividends you have already referred to?

Mr YEADON: No, it does not.

The Hon. JOHN RYAN: What? It pays its dividend back to Sydney Water, does it?

Mr YEADON: Yes. While some of those units that are dealing with external markets will be under a name—AWT, if you like—AWT as a subsidiary no longer exists, so although those units are called AWT and deal with external markets still under the Sydney Water Corporation, there is no separate subsidiary. So in that sense the costs and savings and everything else that go with that is for the Sydney Water Corporation. There is not a separate entity any longer.

I indicate, Mr Chairman, that I have generously remained for an additional 11 minutes at this stage and I have four minutes left, but then I will really have to leave the Committee because I have other commitments.

The Hon. JOHN RYAN: Minister, can you inform the Committee who operates Sydney Water's independent testing laboratory?

Mr YEADON: That is in fact a question for the Minister for Health. There is a South Australian laboratory that undertakes that work but it is contracted by the Department of Health, which is the independent overseer of health issues in relation to the supply of quality water, so you have got the wrong Minister.

The Hon. JOHN RYAN: Is there no contract between Sydney Water and the independent testing laboratory at all?

Mr YEADON: That is correct. We have our own internal testing but that is not the independent laboratory testing, which is obviously independent of Sydney Water. It is contracted by the Department of Health in New South Wales, not Sydney Water.

The Hon. JOHN RYAN: With the wind-up of Australian Water Technologies, will Sydney Water now collect and test its own water for cryptosporidium and giardia?

Mr YEADON: As I indicated, we have our own testing facilities. Obviously, that is crucial to us but there is also a requirement that water tests be undertaken by an independent entity. That is the entity that is contracted by New South Wales Health but, notwithstanding that, yes, we run our own tests to monitor our own operations, and that includes testing for cryptosporidium and giardia—always has and probably always will.

The Hon. JOHN RYAN: Is there any difference or variation between the way in which Australian Water Technologies used to test Sydney's water and the new independent testing laboratory's methods?

Mr YEADON: As I understand it, it is substantially the same but I would think that when New South Wales Health—and you would have to ask its Minister this question—contracted the South Australian laboratory to undertake the testing, New South Wales Health would have had a range of criteria indicating what was required for testing which would have had to have met the regulatory standards in this State.

The Hon. JOHN RYAN: Is there any difference in the time frames under which the tests are taken between the two?

Mr YEADON: You really have to ask the Minister for Health. That independent testing laboratory simply is not under me. I cannot answer these questions. I do not know.

The Hon. JOHN RYAN: I cannot imagine that Sydney Water does not know how often its water gets tested.

Mr YEADON: By the independent laboratory?

The Hon. JOHN RYAN: Yes.

Mr YEADON: Well, it is done by Health, as I keep saying to you. It is contracted by Health and Health runs that regime. We run our own monitoring, obviously, and the independent laboratory runs its monitoring and testing on behalf of New South Wales Health. If New South Wales Health finds any anomalies in that testing, it will come to Sydney Water as a result of that. But, you know, Health is the purchaser of that service and it is Health that you have to ask what it gets for its money.

The Hon. JOHN RYAN: Were any residual costs incurred in the financial year just ended as a result of the Sydney Water contamination crisis?

Mr YEADON: There may have been, but I am informed that, if there were, those costs would be very minor.

The Hon. JOHN RYAN: Can you inform us of any costs involved in the relocation of Sydney Water's head office from the city to Parramatta?

Mr YEADON: I did not know that Sydney Water's office had moved. It has not occurred yet.

The Hon. JOHN RYAN: Is it about to occur?

Mr YEADON: It is certainly on the cards but it is not an immediate occurrence. It will probably happen in a couple of years.

The Hon. DON HARWIN: On how many occasions has Sydney Water breached its licence conditions in the past financial year?

Mr YEADON: Sydney Water's current operating licence is a very robust regulatory instrument that we introduced following vigorous community consultation by the Independent Pricing and Regulatory Tribunal [IPART]. The operating licence continues many of the provisions of the previous licence but we were able to make significant improvements, including stakeholder participation in the decision-making processes, explicit customer rights, developing and reporting against a range of ecologically sustainable development indicators, developing a five-year environmental plan, reviewing the customer contract, and reviewing the water and waste water system performance standards. Monitoring compliance with the requirements of Sydney Water's operating licence is managed through an open and transparent process.

Sydney Water's operating licence regulator, IPART, is charged with engaging an independent auditor to annually test Sydney Water's compliance with the requirements of the operating licence. Sydney Water's operating licence has been renewed for five years from 2000. The first audit against the requirements of its renewed operating licence is scheduled to commence in early September. The 1999 audit—the most recent audit of Sydney Water's performance—found that Sydney Water achieved high or full compliance with the majority of the operating licence requirements. There were no areas of non-compliance for the range of matters against which the corporation's performance was tested. In those areas where a lower level of compliance was assigned or where I was concerned to ensure that Sydney Water's focus was maintained, I required the corporation to undertake a range of actions. Satisfaction of these matters, the other licence requirements and my requirements of Sydney Water arising from the previous audit performance will be addressed as part of the next operational audit.

The Hon. DON HARWIN: Thank you. So there were no areas of non-compliance?

Mr YEADON: There were no areas of non-compliance for the range of matters against which the corporation's performance was tested. I made some further comments about some lower levels.

The Hon. DON HARWIN: On how many occasions was there less than full compliance?

Mr YEADON: The report was tabled in Parliament so perhaps I can refer the Hon. Don Harwin to it. That report is detailed and contains all the information that he seeks. It saves us tediously reiterating it here.

The Hon. DON HARWIN: Is Sydney Water currently under investigation or being prosecuted for any water pollution offences?

Mr YEADON: At this point in time I am not aware of any litigation.

The Hon. DON HARWIN: Would you like to take that question on notice?

Mr YEADON: Yes, but I am 99 per cent certain that the answer is no. Mr Chairman, I am afraid that I must graciously withdraw at this point. I have already generously provided additional time before the Committee.

CHAIR: Thank you for your presence during the previous hour. No doubt Mr Walker can fill in quite capably for the remaining time.

Mr YEADON: I will not wish you all the best with your further deliberations.

The Hon. JOHN JOHNSON: Has Mr Walker been summonsed?

CHAIR: No, but he can be. Mr Walker, do you wish to appear before the Committee for the next hour without being summonsed?

Mr YEADON: Mr Chairman, I ask that you summons Mr Walker to appear before the Committee.

Motion by the Hon. John Ryan agreed to:

That the Committee summons Mr Alex Walker, Mr Ron Quill and Mr Allan Henderson, officers of Sydney Water, to attend for the balance of today's Committee's hearing.

CHAIR: I thank the officers for remaining to appear before the Committee. Mr Walker, I will direct my questions to you and you may delegate them to your officers if you so wish.

Mr WALKER: Thank you, Mr Chairman.

CHAIR: Glenaeon Rudolf Steiner School, which is situated within 100 metres of the Scotts Creek vent for the northside storage tunnel, is based on a philosophy to which the purity of the environment is central. The operation of the vent is undermining the school's ability to provide the environment that parents expect and demand. Since the first operation of the vent in January this year 16 students have been withdrawn from the school as a consequence of parents' concerns about the possible exposure of their children to harmful emissions. Has Sydney Water considered how it will fund works to address the following issues: validation of the medium efficiency particulate air [MEPA] filters and their effectiveness in this previously untested environment; monitoring the performance of all the filters at the vent; and publishing the results of the monitoring real-time and the results of the maintenance of the filters as that occurs, not on a periodic basis?

Mr QUILL: Sydney Water will provide whatever funds are necessary to maintain the filtration process in accordance with the requirements of the various regulators involved.

CHAIR: How will you validate the MEPA filters?

Mr QUILL: We have various processes in place to monitor the effectiveness of the filtration process. Whatever the regulators' requirements regarding monitoring the filtration process, they will be installed.

CHAIR: Thank you. What steps does Sydney Water propose to take to compensate Glenaeon school financially for the considerable loss of income from enrolments that have already been lost and the ongoing losses that will occur as parents find places for their children in other schools of their choice?

The Hon. JAN BURNSWOODS: Mr Chairman, are you suggesting that the school is a profit-making institution that should be compensated for a loss of profit?

CHAIR: The question was not directed to the Hon. Jan Burnswoods.

The Hon. JAN BURNSWOODS: It is a pretty bizarre question to address to Sydney Water. If we are to discuss whether schools are profit-making institutions, I think John Aquilina would have more views on that subject than Sydney Water.

CHAIR: Mr Walker, the question is directed to you.

Mr WALKER: Sydney Water does not believe it has any liability for losses or damages sustained by Glenaeon school and, accordingly, has made no provision.

CHAIR: You believe you have no liability whatsoever?

Mr WALKER: We believe not.

CHAIR: Has Sydney Water set aside funds for the formalisation of a system to inform parties affected by the venting at Scotts Creek when the vent will operate so that those who are most susceptible—that is, asthmatics and immunosuppressed people—will have the option of removing themselves from the locality when that venting takes place?

Mr QUILL: Sydney Water will provide whatever funds are needed to meet the requirements of the regulators.

CHAIR: Are you aware that this channel of communication is essential if Glenaeon school is to fulfil its duty of care to its students?

Mr QUILL: Sydney Water cannot comment on the duty of care of Glenaeon school.

CHAIR: Has Sydney Water set aside funds to contribute to the ongoing health costs of those parties whose health is affected by the construction of the vent against the wishes of the community upon which it has been thrust?

Mr WALKER: Sydney Water accepts the assessment of the New South Wales Department of Health, which is our regulator in health matters, and the advice of its expert panel on this matter that there are no health exposures related to the vent.

CHAIR: What allocation has been made to reimburse Glenaeon school for the expenses it has incurred in mediation with Sydney Water?

Mr WALKER: Sydney Water has paid half the costs of the mediation exercise with Glenaeon school.

CHAIR: Will it pay the balance of those costs?

Mr QUILL: Sydney Water has paid half the costs of the mediation process to date and previously offered to compensate the school for the costs associated directly with mediation.

CHAIR: Will Sydney Water allocate funds to enable the northside storage tunnel to be flushed after raw sewage has been stored in the tunnel? If so, how will this be achieved and why is this information not in the operational environment management plan?

Mr QUILL: The operational environment management plan [OEMP] is not yet complete—we are still waiting on advice from the Department of Urban Affairs and Planning, which is the regulator in regard to that matter. It would be very rare indeed for raw sewage to be in the tunnel. That would come about only as a result of some major failure in the system somewhere or other or due to some fairly major maintenance requirement. Notwithstanding that, there is a significant continuous inflow of fresh groundwater into the tunnel system that flushes it effectively.

CHAIR: Has that inflow been monitored, and is it sufficient?

Mr QUILL: Yes, I can personally attest to that fact. I have been in the tunnel and inspected it. I have witnessed the flushing effect of the groundwater and I was pleasantly surprised at its effectiveness.

CHAIR: What volume of groundwater flows through the tunnel?

Mr QUILL: The total volume is some 40 litres per second at North Head. It varies along the length of the tunnel but the total at the end of the tunnel is some 40 litres per second so it is a substantial flow.

CHAIR: Will Sydney Water agree to meaningful monitoring of vent emissions for pathogens, an action that would greatly alleviate community concerns about vent emissions?

Mr QUILL: Once again we have been guided very much by the preeminent experts in this area—New South Wales Health and the independent expert panel. The advice that we have received from New South Wales Health has consistently been that there is no need for monitoring of emissions for health purposes. In fact, that has been supported by the independent expert panel that has been assembled.

CHAIR: Has Sydney Water allocated funds to set up a community monitoring committee, as agreed in earlier meetings and in the draft OEMP? If so, how much? When will it be established? If not, why not?

Mr QUILL: The OEMP process does propose such a community committee. Sydney Water is supportive of that. In fact, it supported that through the mediation process. As soon as we receive advice from the Department of the Urban Affairs and Planning we will proceed on whatever the requirements are in respect to the OEMP process.

CHAIR: Will Sydney Water meet the direct costs of Glenaeon school during mediation? Is that offer still valid? Will you agree to pay those costs here and now?

Mr QUILL: As I said before, we have already made that offer to the Glenaeon school through mediation. So far, we have not received any response from the school in respect to that.

CHAIR: Will Sydney Water install alarms at the vent site as requested by the Waterways Advisory Committee and community? If so, when? If not, why not?

Mr QUILL: The matter of alarms is associated also with the health risks. Once again, we have been very much guided by the Health department's view that no monitoring is required for health purposes. Therefore, logically there is no requirement for alarms for health purposes. However, there are alarm systems on the ventilation system that monitor the overall performance of the ventilation system. Those alarms are received at our strategic operations centre, which is manned 24 hours a day. We have response protocols in place to deal with any of those alarms.

CHAIR: To be consistent with good engineering practice, will Sydney Water install a particulate air filter on the bypass valve air stream, similar to the final filter installed on the main vent emission stream? If so, when? If not, why not?

Mr QUILL: We believe and we have significant evidence to support this from the engineering community—internationally as well as domestically—that the Northside Storage Tunnel is a world-class installation. The filtration system that we have installed there is as good, or better than any other filtration system that exists anywhere else in the world. We have certainly, in our view, provided a system that is as good as or better than any other tunnel system elsewhere in the world.

CHAIR: Will Sydney Water upgrade the filters from the currently fitted medium efficiency particulate air [MEPA] to the promised high efficiency particulate air [HEPA] filter units—the units acknowledged in General Purpose Standing Committee's Report No. 5 at the end of 2000 by numerous experts as being possibly able to significantly reduce health risks? If so, when? If not, why not?

Mr QUILL: I am very pleased to report that the additional filtration system that we installed on the vent—in fact, we offered them to the Scotts Creek community through mediation and they did not accept them, but we installed them in any case—complies precisely with the recommendation of the inquiry.

CHAIR: Has a question been raised by health experts about the high level of chlorination of Sydney water? There is a much higher level of chlorination now than three or four years ago. What are the health risks from that greatly increased chlorination?

Mr WALKER: There is ongoing dialogue between Sydney Water and its health regulator and, in particular, the water quality unit of the New South Wales Department of Health that includes consultation on the delivered chlorination of water. There are guidelines under the National Health and Medical Research Council for drinking water quality. Sydney Water has complied with those guidelines continuously. There have been no variations beyond them. The average levels of chlorination are less than half the guideline limits.

CHAIR: People have said to me that they believe that the levels of chlorination are far too high. Evidently the health effects of the current levels are being monitored?

Mr WALKER: In the interests of microbiological quality we have been working with Health over the past two or three years, since the water quality incident of 1998, to ensure that levels are maintained at a good standard but, as I say, well below the guideline limits.

The Hon. JAN BURNSWOODS: In light of the Minister's comments earlier about changes over time, Mr Walker, could you inform the committee how Sydney Water is delivering a better service?

Mr WALKER: There are a whole range of programs which are in place to guarantee a better service to the community. Sydney Water's capital expenditure, in particular, in the 2001-02 financial year is forecast to be \$456 million and will deliver valuable improvements in environmental protection and customer service. This budget has increased by \$40 million—or about 10 per cent from 2000-01.

The capital budget, once again, provides funds to extend the water and sewerage systems to serve new urban development throughout Sydney, the Illawarra and the Blue Mountains. That component in 2001 to 2003 amounts to \$45 million. Additionally, capital expenditure is allocated to sewerage priority unsewered areas, including the Blue Mountains, Bundeena/Maianbar, Gerroa/Gerrigong and The Oaks/Oakdale. The total expenditure amounts to \$190 million. When these schemes are complete, residents will have access to reticulated sewage for the first time.

In terms of ecologically sustainable development, Sydney Water is committed to transparency and openness in its operations. This commitment is addressed through Sydney Water's business plan, processes and implemented throughout its operations. During the past four years, Sydney Water's ESD performance has received a full compliance finding by the independent audit engaged by the licence regulator. The corporation is also ranked amongst the top four companies in Australia against the United Nations environment program, environmental sustainability reporting criteria.

Through extensive consultation with peak environmental groups throughout 1999, Sydney Water has developed a suite of key operational sustainability indicators. These indicators will form the basis of our ESD measurement, allowing the community and the corporation to identify performance across a full range of its social, economic and environmental impacts. Since 1995, Sydney Water has undertaken a range of major capital investments designed to improve the sustainability of water and sewerage service provision. All of these investments are consistent with the principles of ESD and social and environmental goals.

A clear example of Sydney Water's drive towards sustainability is in its conservation of energy. Sydney Water is a major user of electricity. In normal operations the corporation uses about 0.65 per cent of all electricity consumed in New South Wales, equivalent to approximately 51,000 residential properties. Sydney Water is continuing to explore cost-effective energy efficiency initiatives.

In the water supply system, for example, the corporation's IICATS telemetry and control system has been used to manage energy use. Continual and comprehensive monitoring of the hydraulic system has enabled scheduling of water pumping stations to maximise off-peak operation and minimise costs stemming from the maximum demand component of electricity supply charges.

In 2001-02 Sydney Water will spend a further \$16.8 million on installing an IICAT system. Over the past seven years Sydney Water has improved the energy efficiency of its water operations by about 7 per cent and the energy efficiency of its waste water operations by about 17 per cent.

Additionally, Sydney Water is implementing several business improvement initiatives such as improved monitoring and automated real-time control of waste water systems and an improved customer information and billing system to enhance customer service. An amount of \$18.5 million is allocated in 2001-02 to improvements in customer service through implementation of this system alone. These additional funds will provide greater convenience for Sydney Water's customers and will play an important role in Sydney Water's roll out of on-line services.

Operational efficiencies from implementation of the new system will also release an expected \$6 million in extra savings each year. Already the property link service, which operates over the Internet or by fax, has issued 23,000 certificates and 27,000 diagrams since its introduction in 2000. Altogether the use of new technologies will allow the corporation to continue to focus on using sophisticated equipment to improve efficiency and deliver better outcomes for customers and the environment.

In terms of pensioner rebates—through government funding of course—Sydney Water continues to provide rebates for pensioners. In 2001-02 the total amount for that was \$66.7 million. In community consultation, Sydney Water continues to work closely with the communities it serves and has recently completed a review of community

consultation policies. The corporation's new guidelines provide an innovative approach to consultation with the community and are designed to strengthen ties between Sydney Water and the community.

We hope to demonstrate that we have improved our performance, although we have been very successful in major projects in recent times. Sydney Water provides services to a large community and has a wide range of interests so it has an extensive sponsorship program that supports Sydney Water's commitment to community service.

In 2000-01 Sydney Water supported more than 60 organisations through the sponsorship of a range of activities and events in sport, community, art, environment and education. Sydney Water's program covers a wide range of organisations from the Australian Museum and Taronga Zoo, to Oxfam Community Aid Abroad, to the Western Sydney Environment Group, to Sculpture by the Sea, and the Sydney Festival and to the Greater Western Sydney Sporting Foundation. An amount of \$1 million has been allocated to the corporation's sponsorship program to continue these philanthropic works.

In relation to our Every Drop Counts program, in 2000-01 Sydney Water will continue to roll out its \$50 million demand management program. Popularly known as Every Drop Counts, our program has achieved a high level of success in reducing per capita water consumption across our area of operations. Average water use across our area has been declining since the early 1980s, and has fallen 18 per cent since 1991 to 415 litres per capita per day for 1998-99. I am told that these declines in average per capita water use have more than offset the additional demand for water from the growth in population.

Demand management is an increasingly important factor in how Sydney water operates as a business and is an integral part of managing in an environmentally sustainable way. The corporation's customer research has indicated that while the community remains committed to water conservation, there is a view that Sydney Water should provide leadership in this area, and that is what Every Drop Counts is all about.

Sydney Water's demand management strategy has been designed to meet the new operating licence water consumption targets of 364 litres per capita per day by 2004-05, and 329 litres per capita per day by 2010-11. The overall demand management strategy has been designed to close the gap between projected demand and the operating licence targets.

Sydney Water has used a least-cost planning framework to develop a demand management strategy that is designed to ensure that the operating licence targets are met at the lowest possible cost to the community. More than 40 options to reduce demand, covering all customer classes and all end-uses, were assessed against selection criteria that balanced considerations including cost of implementation, resultant demand reductions, balance across customer classes, equity, and balance across types of options.

A balanced and comprehensive suite of programs has been designed to reduce demand and achieve the operating licence targets. These include the Smart Showerhead program, in which customers receive a rebate for the purchase of an approved water efficient showerhead; the Every Drop Counts Residential Retrofit program, in which residential properties are being retrofitted with water efficient showerheads, tap flow controls, system adjustment devices and the repair of minor leaks; the Every Drop Counts Residential Outdoor program, to improve outdoor water use efficiency in the garden; industrial and commercial water audits and retrofits, including water recycling; and active leakage reduction, aimed at reducing the amount of water lost from our own supply system.

We have also invested \$1.5 million on initiatives designed to promote the use of recycled water in the community from non-potable uses, thereby reducing overall water consumption levels. The capital budget maintains a focus on delivering better outcomes for customers and the environment. A major aspect of works in 2001-02 is maintenance of Sydney Water's assets. We recognise that our ability to meet customer demands is dependent on effective management of our system of assets, including their creation and renewal. Sydney Water's approach to asset management integrates the management of water supply, waste water and storm water assets into the strategic and corporate planning activities.

Sydney Water is continuously improving the management of its capital works program, in both the development and delivery of the program. The analysis of system condition has resulted in a refinement of capital allocations in renewals of assets. Sydney Water has increased its ability to deliver capital works by implementing improved delivery procedures. With this in mind, about 34 per cent of capital funds in 2000-01 are for renewal and reliability projects.

Sydney Water has also put in place a number of specific programs in the Illawarra region, including the recently approved Illawarra waste water strategy. There is a major industrial reuse component to this scheme, which

is expected to lead to a 40 per cent reduction in ocean discharges in the Wollongong system. Through an innovative reuse contract with BHP in Port Kembla, Sydney Water has contracted to supply 20 million litres of highly treated effluent every day for steel making. Over the 15-year life of the contract, the 100 billion litres to be reused represent two-thirds of the capacity of Avon Dam, which serves the Illawarra region. The Illawarra waste water strategy will deliver significant improvements to the region, and is an example of working together with our communities to provide improved quality of life across the area of operations.

Sydney Water will spend \$5.55 million on the implementation of e-business initiatives this financial year. Of this, \$3.6 million will be spent on better managing relationships with e-customers. Some of the activities to be commenced include new community education programs and new interactive community interest web sites. This will ensure that customers and stakeholders have a greater choice, convenience and ease of access to relevant Sydney Water information.

Some \$850,000 will be spent on online measurement reporting and interagency information sharing. This will ensure that Sydney Water can effectively and efficiently report on our operating licence performance. The measurement and reporting system will be extended to include environmental performance indicators. Sydney Water will invest \$550,000 in e-billing, e-developer and ancillary service initiatives. This will provide significant benefits to the developer industry through electronic access to information and integration of information systems. It will further provide a platform for future e-business contacts and dealings with customers.

The Hon. JAN BURNSWOODS: I know we have had an enormous number of questions about the northside storage tunnel, but I was particularly anxious to hear about the environmental benefits that have been brought to Shelley Beach at Manly as a result of the connection with the storage tunnel.

Mr WALKER: Following community consultation on the options available to the Shelley Beach community, the Minister for Urban Affairs and Planning provided conditional approval for the connection of Shelley Beach to the northside tunnel. Sydney Water has a budget of \$6 million for the project. The connection of Shelley Beach to the northside tunnel is an example of environmental benefits to be delivered by the tunnel. The northside tunnel has provided an opportunity to divert wet weather flows from Shelley Beach sewage pumping station to the tunnel via a 60-centimetre bore hole. This work will be completed in August-September 2001.

Work to establish a temporary sewage pumping station, demolish the old station's superstructure and adjust the pumps commenced in May and will be completed by the end of October. When the construction is completed the area will be fully restored and landscaped. The connection will improve bathing water quality in the Shelley Beach and Manly Beach areas. It will also bring environmental and aesthetic benefits to the community by reducing odours, rebuilding the pumping station and providing adequate protection for native fauna and the sensitive marine environment.

The Hon. JOHN RYAN: I have a couple of questions relating to the statement of corporate intent. Regrettably, the one that members have for this particular hearing is dated November last year. I imagine that the new one has been issued. However, if the questions are outdated, I regret the fact that a more recent statement was simply not available to us.

I note that in November last year you reported, through the statement of corporate intent, that Sydney Water's expenditure forecasts over the three years are likely to be reduced through improved capital and operating efficiencies. That appears in part to be an expression of some disappointment that you were not able to achieve the increases in prices that you anticipated. As a result of operating in this tighter framework, have any alterations been made to what you had intended in your statement of corporate intent in 2000-01? Has it had to be trimmed or altered in some way to accommodate a reduction in your expectations for price increases for Sydney Water?

Mr WALKER: I shall comment generally about Sydney Water's business plan, just to give the overall picture. The essence of the business plan is that, as I have described previously, in order to improve services to customers and improve performance against environmental and public health standards, Sydney Water has substantially increased its capital budget. This program is a three-year program initially agreed for the year commencing 1999-2000 and, therefore, to be completed in the year we are just entering, 2001-02.

The essence of the program was to fund the increased capital expenditure by a combination of existing resources and whatever other resources the regulator might choose to allocate through the pricing review, which was conducted last year, and a combination of modest borrowing, as I think it was described by the Minister earlier, and by diverting resources from the operating costs side of the budget to the capital side. So, based on some benchmarking, we embarked on a reduction of 23 per cent in operating costs per household or per capita over that three-year period. That program is achieving its targets and is expected to be delivered by the end of this financial

year, with a whole lot of the things you have already touched on in questions contributing to that. I am not sure if that satisfactorily answers your question.

The Hon. JOHN RYAN: Obviously when you commenced the three-year plan you had a specific objective of capital works. As you have obviously not received the revenue that you intended through water pricing, have you had to adjust your capital works projections as you intended in that three-year plan? If so, how?

Mr WALKER: No. We have been managing to finance those through the resources that we have available to us and with the borrowing program that has been agreed with Treasury.

The Hon. JOHN RYAN: In full—you have not had to alter them in any way?

Mr WALKER: There have been some adjustments as programs come forward or are deferred for various reasons, but they have all been negotiated.

The Hon. JOHN RYAN: Can you explain to the Committee what those adjustments are?

Mr WALKER: There have been no substantial adjustments. The program is proceeding as per that statement of corporate intent.

The Hon. JOHN RYAN: There is not much in this statement of corporate intent in terms of listing the projects. Are you able to tell us how the projects have been rescheduled in order to meet your change in revenue expectations?

Mr WALKER: A huge number of projects are involved in that. I am quite happy to take that on notice and I will give a full account of that.

The Hon. JOHN RYAN: Are you able to confirm to the Committee your report that you intend to upgrade the treatment at the North Head sewage treatment plant to ensure that grease and sewage floatables are not discharged from the plant and having impacts on beach water quality? Has that been carried out as you had intended back in November?

Mr WALKER: That was not intended to be carried out in this period. That was forecast for the longer term, and is still forecast for the longer term. I cannot remember the exact timing in those papers but it is still forecast for the longer term and not in the period that I have referred to.

The Hon. JOHN RYAN: The statement of corporate intent states:

Sydney Water proposes to begin the upgrade of the treatment of North Head sewage treatment plan to ensure that grease and sewage floatables are not discharging from the plant and having impacts on beach water quality.

Has the program begun?

Mr WALKER: The planning process has been initiated.

The Hon. JOHN RYAN: So you have not begun the upgrade as reported in this statement?

Mr WALKER: The actual works have not begun.

The Hon. JOHN RYAN: When do you expect to begin the works and when do you expect them to be complete?

Mr WALKER: I do not have those details at my disposal at the moment. I will take that question on notice.

The Hon. JOHN RYAN: In the statement of corporate intent you indicated that there were some areas where lower levels of compliance have been achieved in terms of the operating licence from the 1999 audit of Sydney Water. Unfortunately the report does not indicate those areas. Can you tell the Committee the areas that achieved lower levels of compliance than required by the operating licence?

Mr WALKER: I can only reiterate the Minister's answer: A full report on those matters was made and was tabled in the Parliament. I do not have it with me at the moment.

The Hon. JOHN RYAN: I have a copy of the annual report of the licence operators and they make the same general comments. I wonder whether we could have a more specific comment as to what that statement means, if not immediately then on notice, because I do not think that detail is available easily to members.

Mr WALKER: My understanding is that it is covered in that report. I will have to take the question on notice.

The Hon. JOHN RYAN: Feel free to find it—it is not there. In relation to Australian Water Technologies International, the statement of corporate intent reported:

The corporation is establishing the formation of a subsidiary company of AWTI in Thailand which will optimise business and tax results.

Can you explain to the Committee whether that company has been established, and what business and tax results are you expecting to optimise? Can you explain what that involves?

Mr WALKER: I cannot remember the detail of the tax arrangement but it is advantageous to operate through a local company in Thailand, rather than from Australia, to this State. That subsidiary has not yet been established. We are awaiting approval from the shareholders to do so. The contracts are in place with the provincial water authority of Thailand for a water system and AWT contracted to provide some engineering consulting services to that group, which is managing that project.

The Hon. JOHN RYAN: Do the tax advantages include savings in terms of the payment of taxation in Australia?

Mr WALKER: No. They relate to savings in Thai taxation.

The Hon. JOHN RYAN: I refer to the statement of corporate intent which reports:

Further investments, including the continuation of the interim IE program, sewage pumping stations and a risk reduction program, are proposed over the next four years in the capital works program.

Unfortunately, the details of that are not available to members. Are you able to provide a list of the programs that are being reported on in that statement of corporate intent on page 21?

Mr WALKER: I will take that question on notice.

The Hon. DON HARWIN: When the Minister was concluding his answers he said he was unsure whether Sydney Water was currently under investigation or being prosecuted for water pollution offences. He said he was 99 per cent sure there were not any. Do you have anything further to add or would you be happy to take that on notice?

The Hon. JAN BURNSWOODS: Point of order: The Minister gave an answer that was not in the wording referred to. It was a much more general question about litigation. The Minister took the question on notice. It is inappropriate for a member of the Committee to, first, repeat the question and, second, then ask a different group of people an hour later a question that the Minister has already volunteered to take on notice.

The Hon. DON HARWIN: I am happy to move to the next question. The Minister was about to leave, matters were being brought to a conclusion, and I was not sure whether he had concluded. However, if the honourable member takes offence, I am happy to move to the next question.

Mr WALKER: I am unaware of any current prosecution.

The Hon. DON HARWIN: Has Sydney Water appealed against Environment Protection Authority licence conditions placed upon it?

Mr WALKER: Sydney Water did appeal in the early part of this year against the issue of 27 sewer system licences by the EPA. The appeal was following extensive negotiations with the EPA over a number of technical matters. The appeals were withdrawn.

The Hon. DON HARWIN: There are no longer any that are current?

Mr WALKER: That is correct.

The Hon. DON HARWIN: Are you able to estimate the cost of making those appeals?

Mr WALKER: I am unaware of that. I would have to take the question on notice.

The Hon. DON HARWIN: Has Mr David Hill been employed in any capacity by Sydney Water or Australian Water Technologies?

Mr WALKER: Not that I am aware of.

CHAIR: The David Hill or any David Hill?

The Hon. DON HARWIN: Mr David Hill, the former chairman of Sydney Water?

Mr WALKER: I took that to be the David Hill. I am not aware of that gentleman having been employed.

The Hon. JOHN RYAN: In the statement of corporate intent you have reported that to meet its current obligations Sydney Water will be prepared for an anticipated increase in standards for waste water operations in the coming years. Could you outline what your expectations were and which specific standards you expect to increase over coming years in terms of waste water?

Mr WALKER: The sewer system licences, which I referred to before, are a new set of licences under the new environmental legislation, the Protection of the Environment Operations Act. They encompass all of Sydney Water's sewer systems. These are certainly the first systems in New South Wales and they are among the first in Australia to be so listed. They require significant reductions in overflows from Sydney Water's waste water systems. I can give more specific details if you wish.

The Hon. JOHN RYAN: I am interested in whether Sydney Water can report to the Committee the pricing trends of water over the last five years and whether the increase in the price of water has kept pace with the rate of inflation.

Mr WALKER: To be precise about that I would have to take the question on notice.

CHAIR: It is the intent of Sydney Water to gradually increase the price so that the consumer pays the full cost of the water, is it not?

Mr WALKER: The Committee may be aware that Sydney Water applied for significant increases in water prices from the Independent Pricing and Regulatory Tribunal [IPART] last year but they were substantially denied by IPART, and the increases that have been allowed are pegged to the consumer price index, but I cannot remember the exact relationship and that is why I took the previous question on notice.

CHAIR: Why did you need to ask for those increases?

Mr WALKER: We believed it might be necessary to assist us to fund our capital programs in the future relating to the question the member asked earlier, but subsequently we have been able to demonstrate that we have the resources to deliver that program. I might add also that an unexpected result of the review by IPART was the requirement to improve the efficiency and delivery in capital programs by 15 per cent this year and 18 per cent next year, that is to say, to deliver the same works with that efficiency premium to the same extent. I should have remembered that in answer to the earlier question.

The Hon. JOHN RYAN: You might recall a while ago I asked you a question about Sydney Water's borrowings. I refer now to page 17 of the statement of corporate intent.

The Hon. JAN BURNSWOODS: Did the honourable member ask his earlier question of the Minister or these gentlemen? If it was asked of the Minister it should be taken on notice or may even have been taken on notice. It is embarrassing for the Opposition to be filling in time in this way.

The Hon. JOHN RYAN: That is not a point of order.

The Hon. JAN BURNSWOODS: I asked whether you asked the earlier question of the Minister or these gentlemen.

The Hon. JOHN RYAN: I do not think you have a right to ask me that.

The Hon. JAN BURNSWOODS: If you do not want to say, my point is well and truly made.

CHAIR: There is no point of order.

The Hon. JAN BURNSWOODS: I do not think I took a point of order.

The Hon. JOHN RYAN: What were you doing then?

The Hon. JAN BURNSWOODS: It was just curiosity. It is embarrassing when you repeat yourself.

CHAIR: It does not embarrass me.

The Hon. JOHN RYAN: I am simply trying to correlate the answer that was given earlier with the details in the statement of corporate intent, which indicate that new borrowings would consist of \$160 million for 1999-2000 and in the year 2000-01 the figure borrowed would be \$220 million. The Minister mentioned figures in the order of \$170 million and \$200 million. Has there been a change to the schedule of expected borrowings since the preparation of the statement of corporate intent and, if so, why and how?

Mr WALKER: That was the intention, that was the plan at that time, based on projections of income, expenditure and cash. It was not necessary to draw down on that provision to the extent of the \$220 million. The \$170 million was the end result.

The Hon. JOHN RYAN: The \$170 million figure refers to the year 2000-01?

Mr WALKER: Correct.

The Hon. JOHN RYAN: And the \$160 million was the actual result the previous year?

Mr WALKER: I do not have that in front of me. I will have to take your word for that.

The Hon. JOHN RYAN: I also asked for the details of the anticipated borrowings for the forthcoming year 2001-02? Can you supply those details to the Committee?

Mr WALKER: For the details year by year I would have to take on notice. I can say that the estimate for the following three years is a total of \$450 million.

CHAIR: If you have a 21 per cent gearing, then you are valuing Sydney Water at only about \$1 billion, is that right?

Mr WALKER: No, the 21 per cent is in total. We entered the year with a debt level of \$1.8 billion.

CHAIR: It was an increase.

Mr WALKER: These are the increased borrowings.

CHAIR: So the actual value of Sydney Water is \$10 billion?

Mr WALKER: The balance sheet totals assets at about \$13 billion.

The Hon. JOHN RYAN: The difficulty is that when you use the figure of \$450 million borrowings over three years I am not sure which three years you refer to.

Mr WALKER: The year we are just entering and the following two.

The Hon. JOHN RYAN: The current financial year and the following two years you anticipate borrowing an amount of \$450 million?

Mr WALKER: Total, yes. I can take the question on notice and give you a breakdown.

The Hon. JOHN RYAN: Can you give the Committee details as to the overall level of debt of Sydney Water now?

Mr WALKER: I would take the question on notice for the sake of precision. It is of the order of \$1.8 billion or \$1.9 billion.

The Hon. JOHN RYAN: In the list of detail given in the statement of corporate intent there is a reference to a figure referred to as the shareholder value added or SVA. Can you explain what that is?

Mr WALKER: It would take me a while to explain it exactly. It is a measure of commercial performance for the sake of having a single measure that has been adopted by New South Wales Treasury. It represents how well the capital that has been applied to the business has been applied in comparison to alternative applications. The SVA figure, which was set under the SCI for Sydney Water for the year just completed, will effectively break even. It was about minus \$3 million. The actual performance will come out better than that, at about plus \$15 million or \$20 million.

The Hon. JOHN RYAN: Do you anticipate a similar result for the forthcoming year?

Mr WALKER: I cannot recall the budgeted figure. It is about square again, I think.

The Hon. JOHN RYAN: Is there some reason why the operating profit before and after tax contributions for the year 2000 to 2001 decreased by in the order of \$20 million?

Mr WALKER: Sorry?

The Hon. JOHN RYAN: The operating profit of Sydney Water declined from \$184 million in the year 1999-2000 to \$162 million in 2000-01. Is there some reason why there was a reduction in the operating profit of Sydney Water in the order of \$22 million?

Mr WALKER: The main reason was the implications of the pricing determination by IPART, which took effect from 1 October 2000.

The Hon. JOHN RYAN: Can you indicate to the Committee what revenue was forgone by Sydney Water not being able to achieve its application before IPART for the price increase?

Mr WALKER: I would have to take that on notice. It is a complex question.

The Hon. JAN BURNSWOODS: I would like to establish something if this line of questioning is to continue. When Mr Walker takes these questions on notice I imagine he will take them to the shareholder Minister, not the portfolio Minister. Most of these questions have nothing to do with Minister Yeadon but are questions for Treasurer Egan.

The Hon. JOHN RYAN: I might respond to what appears to be an attempt at a point of order. There is no reason why members of this Committee cannot question Sydney Water about its statement of corporate intent. It is the equivalent of its annual report. It was tabled by Minister Yeadon, not Treasurer Egan. There is no reason why it does not fall within his responsibility and that is why I asked the questions. The standing orders of this Committee do not prevent us asking questions of this nature.

CHAIR: There is no point of order.

The Hon. JAN BURNSWOODS: I did not mention the statement of corporate intent. It is nice to see that the Opposition is using last year's crutch. I said that these questions were being taken on notice but surely in effect they will go to Treasurer Egan as shareholder Minister, not to Minister Yeadon.

CHAIR: The Minister may wish to consult the Treasurer.

The Hon. JAN BURNSWOODS: Further, could I mention—

The Hon. JOHN RYAN: Is the member taking a point of order because I am getting a little tired of being interrupted by spurious comments?

The Hon. JAN BURNSWOODS: It was not Minister Yeadon who tabled the annual report but Minister Aquilina on behalf of Treasurer Egan, which was precisely the point I was making.

The Hon. JOHN RYAN: There is no reason why I cannot ask Sydney Water questions about the statement of corporate intent. Sydney Water prepares it; it was prepared by the Chairman, Gabrielle Kibble.

The Hon. JAN BURNSWOODS: It is nice to see the Opposition needs so many crutches to fill up the time.

The Hon. JOHN RYAN: I do not see it as a crutch. We have asked questions from the statement of corporate intent of Sydney Water in previous estimates committees and they have gone without comment. It is not a mistake now and it was not a mistake in the past. Mr Walker, can you give the Committee details about the Olympic sponsorship program operated by Sydney Water during the Sydney 2000 Olympic Games? What was its value and what components were involved?

Mr WALKER: Sydney Water had no sponsorship of the Olympics or Olympic-related events.

The Hon. JOHN RYAN: I understand that Sydney Water identified itself as being a supplier of water to the Sydney 2000 Olympics?

Mr WALKER: There was no sponsored arrangement. All such arrangements were commercial.

The Hon. JAN BURNSWOODS: The electricity people probably supplied the electricity.

The Hon. DON HARWIN: How many consultants did Sydney Water commission in the last year?

Mr WALKER: I will have to take that question on notice. We report in our annual report on consultants.

The Hon. JOHN RYAN: What progress has Sydney Water made to alleviate the backlog relating to its sewerage program?

Mr WALKER: The priority sewerage program represents the biggest expansion of our sewerage system in 25 years. Unsewered areas were investigated by the Environment Protection Authority to establish a priority list of areas based on the level of environmental degradation and the prospect for improvement. Following studies to identify options, six of the priority sewerage areas have had an environmental impact assessment placed on public display. Two of the areas have had a representations report completed and submitted to the Department of Urban Affairs and Planning for approval.

Sydney Water is planning to spend \$8 million in 2001-02 to progress work on the priority sewerage program. This is in addition to works already under way for the Oakes-Oakdale-Belimbla Park, Gerringong-Gerroa, Bundeena-Maianbar and the Blue Mountains areas, which are under pre-existing programs. Approximately \$7 million has been allocated to progressing detailed design and construction on the Illawarra Northern Towns Sewerage Scheme. The remaining funds are for detailed designs for the Mulgoa-Wallacia-Silverdale sewerage scheme and for finalising the environmental impact assessment for the Brooklyn-Dangar Island, Jamberoo, Menangle-Menangle Park and Mount Ku-ring-gai industrial area sewerage schemes.

The Hon. JOHN RYAN: Are you expecting any work to commence on the designs for the areas you have just mentioned?

Mr WALKER: The areas where work is proceeding are Gerringong-Gerroa, Bundeena-Maianbar and the Blue Mountains.

The Hon. JOHN RYAN: Has the sewage treatment plant at Cronulla been completed? I understand that it is operational. Is any further work expected in Cronulla?

Mr WALKER: It is still going through a commissioning phase, but it is substantially completed. The upgrade is completed. Some other reliability works are being carried out in conjunction with the operation of the plant.

The Hon. JOHN RYAN: What will be the final cost of that plant?

Mr WALKER: I have not got the figures in front of me, but I can say that the project was completed under budget and on time. I can take that question on notice, if you wish.

CHAIR: Thank you for attending before the Committee today. Mr Walker, could you provide answers to questions that have been taken on notice?

Mr WALKER: Yes.

The Hon. JOHN JOHNSON: Could you also inform the Committee how much it cost to provide those answers to questions on notice?

Mr WALKER: Yes.

The Committee proceeded to deliberate.
