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Strategic Management / Econometric Market Analysis - ABN 26 021 850 787
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The 2011 Biennial Assessment
95 Northbourne Avenue
Canberra ACT 2600

Dear Sir/Madam,

In making this public submission, experience as former external director of the Maroochy Water Services Advisory Board (MWSAB), former treasurer of the Coolum Beach Progress and Ratepayers Association (CBPRA), and member of the Sunshine Coast Regional Council's Sustainability Advisory Panel is drawn upon. I now refer to the Commission's NWI Discussion Paper of September 2010 and question four of page five *'Have there been unanticipated barriers to achieving fundamental components of the NWI?'*

I contend that economic efficiency outcomes intended with adoption of the NWI's Pricing Principles have been thwarted due to prevarication and obstruction by responsible agencies of the Queensland Government in the interests of concealing improper monopoly pricing abuse in water and sewerage service charges throughout South East Queensland. Since the Queensland Government committed to water reforms spelled out in NWI agreements with the Commonwealth in mid 2004, governance, accountability, transparency, and institutional arrangements have been ineffective. Households in Coolum Beach and throughout South East Queensland are being systematically deprived of both financial transparency and the statutory protection against pricing abuse by government monopoly business entities providing water and sewerage services that is their entitlement under NWI Pricing Principles. This is primarily due to the Queensland Government's ongoing refusal to refer legitimate prices oversight investigation requests to the Queensland Competition Authority (QCA) for independent assessment. A discussion of documentation that is enclosed to support this contention follows, and I refer to enclosure "A".

Following notification of past manipulation of working capital between the public sector financial records of Maroochy Council (Council) and Maroochy Water Services (MWS) recorded in financial information for the years 1999/00 to 2002/03, the MWSAB was dissolved by Council on 10 December 2003. Following this action balance sheet transparency relating to MWS was progressively removed from the public domain.

Enclosures "B" and "C" record Council's refusal to restore balance sheet transparency for this declared Government Monopoly Business Activity (GMBA). That this refusal to restore financial transparency was condoned by the Minister and Department of Local Government and Planning (DLP&G) having ultimate responsibility for administration of the Local Government Act and Financial Standard is confirmed in enclosure "D". DLP&G's failure to take up financial transparency issues demonstrates an absence of accountability in the Queensland Government that was astonishing given Treasury's preference for re-instigation of preparation of detailed annual reports stated in enclosure "E". Please now refer to enclosure "E".

It can be noted that the Ministers QCA assert that MWS's regulatory assets increased from \$276.9 million in 2001/02 to \$321.5 million in 2002/03. The Maroochy Annual Report for 2002/03 records revaluations of water and sewerage assets of \$75 million, suggesting that the bulk of this regulatory asset increase arose from revaluations despite assertions to the contrary in note 4 of page 2. Water and sewerage assets for MWS, in Council's Annual Reports from 2002/03 to 2007/March'08 record revaluation increases totalling \$612.6 million.

It can be noted from enclosures "F" that the Ministers QCA decision set out in Ref: TRO-10952 dated 16 June 2005 followed a Treasury meeting with Maroochy Council. Also that the powers of referral of prices oversight investigations are vested with the Premier and Treasurer (the Ministers QCA) under part 3 of the Queensland Competition Authority Act, and CBPRA is informed of Treasury's consideration of its concerns raised in a 25 November 2004 meeting. The decision of Ministers QCA is not to refer the May 2003 MWS prices oversight investigation request to QCA was based on Treasury's calculation of return on regulatory asset calculations provided in enclosure "E" *"being within the reasonable range"*.

Enclosure "G" details a more accurate calculation of the return on regulatory assets for MWS developed by the former treasurer CBPRA (RJK). Use was made of return on capital employed financial data previously developed at the request of the MWSAB to estimate more realistic values of regulatory capital than were used by Treasury.

Enclosures "H" and "J" contain information requests relating to benchmarking comparisons and performance of prices oversight obligations of the Sunshine Coast Regional Council (SCRC) relating to MWS, Noosa Water Services and Calacqua, the three water and sewerage GMBAs amalgamated into SunshineCoast Water. To date there has been no response or further clarifications provided by SCRC or any other agency of the Queensland Government to these requests.

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Enclosure “K” is a response from the Treasurer’s office to earlier clarification requests regarding final refusal by the Ministers QCA to refer the CBPRA’s 2003 request for a QCA prices oversight investigation (Ref: TRO-19822 dated 16 November 2007) on the basis of “ *impending wide-ranging institutional reforms*”.

Enclosure “L” informs the Under Treasurer of substantial revaluations recorded for the infrastructure assets of MWS prior to its amalgamation into SunshineCoast Water that may be flawed, and the failure of SCRC to provide clarifications requested in enclosures “H” and “J”.

Enclosure “M” alerts the Treasurer to possible manipulation of assets in the financial statements of MWS that appear in breach of NWI Pricing Principles, and requests prices oversight referral of the 2010/11 budgeted charges of Unitywater, together with a prices oversight investigation of the bulk water price projections determined by the Queensland Water Commission.

Enclosure “N” is the Treasurer’s response to enclosure “M”. Enclosure “O” is my response alerting the Treasurer that asset valuations developed by KPMG in 2007 appear not to conform with NWI Pricing Principles, resulting in the prices oversight referral requests for SEQwater, Linkwater, and Watersecure contained in enclosure “P”.

Enclosure “Q” provides e-mail communications with the Treasurer highlighting clarification requests relating to assertions contained in enclosures “E” and “F”. To date no response to such clarification requests have been received.

Enclosure “R” is a public submission made to QCA regarding the limited terms of reference given by the Ministers QCA for interim price monitoring in South East Queensland. Enclosure “S” provides an e-mail communication exchange with QCA relating to that public submission. Please note the information provided by the QCA on 8 October 2010 relating to its inability to perform effective prices oversight.

Accountability and adaptability are key elements of efficient governance and institutional arrangements. Both elements have been lacking since 1999/00 due to the Queensland Government’s failure to embrace NWI reforms. Shortcomings relating to public sector audit processes emerge from financial irregularities outlined in enclosures “T”, “W” and “X”. A particularly troubling aspect is the non-current asset manipulation practices of Maroochy Council, Sunshine Coast Regional Council, now carried over to Unitywater, described in paragraph five of page 1. Reluctance of the Queensland Audit Office (QAO) to qualify audit reports of these councils in years of significant revaluation of water and sewerage non-current assets has permitted continuation of revenue collection in excess of the Maximum Allowable Revenue permitted under NWI Pricing Principles for urban water service providers.

The Queensland Competition Authority (QCA) issued its “Statement of Regulatory Pricing Principles” that sets out on page 33 the Optimised Deprival Value methodology to be used for non-current asset valuations in December 2000. As highlighted in February 2004 (enclosure “T”) the QAO was notified of concerns regarding the absence of an audit qualification in the 2002/03 Annual Report of Maroochy Council arising from losses of financial reporting transparency and an asset revaluation adjustment of \$75 million. At a 7 May meeting with the QAO these concerns were discussed in detail and enclosure “A” together with other supporting material was tabled as supporting background documentation. The QAO was also made aware of CBPRA’s prices oversight investigation request of May 2003 to the Minister Local Government and Planning (MDLG&P) and the reasons behind that request.

In enclosure “V” the QAO asserts that accounting treatment of revalued assets used in the 2002/03 Annual Report is correct. Given the information provided at the 7 May meeting and its regular consultations with DLG&P, it is startling that the revaluation methodology used by Council used in 2002/03 was not investigated. This reluctance to probe into revaluation methodology confirmed in enclosures “W”, demonstrates that both accountability and adaptability are lacking in Queensland resulting in the excessive revaluations described in paragraph five of page 1. As a consequence of these governance failures by the QAO, Queensland Treasury and DLG&P, flawed determinations of the capital recovery component of water and sewerage charges are now embedded in retail service charges throughout South East Queensland.

Finally, enclosure “X” is a correspondence exchange between the former external director MWSAB (RJK) and the Queensland Government’s Public Accounts Committee (PAC) relating to a public submission inquiry entitled “Government Financial Reporting” dated May 2005. It is astounding that this submission was not considered relevant to that Inquiry given that commercialisation and corporatisation of public sector entities is specifically identified in the discussion paper.

The enclosed documentation is a case study into the absence of effective governance, transparency, accountability, adaptability and institutional arrangements relating to water reforms in South East Queensland since NWI water reforms were adopted in mid 2004. It is a sorry picture that may well be duplicated in other States and Territories given the attractiveness of water and sewerage monopoly service providers as improper revenue collection vehicles.

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To address the situation in Queensland there is an urgent need to change existing governance and institutional arrangements by providing powers within the Commonwealth to initiate independent prices oversight investigations by the QCA when that agency is impeded from performing its duties by the Queensland Government. This may require that the QCA becomes a regulatory agency directly administered by the National Water Commission.

Finally it should be noted that most of the correspondence provided as enclosures were also provided in public submissions to the Productivity Commission's recent Urban Water Sector Inquiry.

Yours sincerely,

R.J. Koerner (RJK)

Enclosures:

- "A" E-mail communication from RJK to Chair MWSAB dated 1 December 2003;
- "B" Letter from CBPRA to CEO Maroochy Council dated 17 February 2004;
- "C" Letter from G.Laverty to CBPRA dated 10 March 2004 (Ref: grl mxp);
- "D" Letter from Minister DLG&P to CBPRA dated 6 December 2005 (Ref:L/05/02271);
- "E" Letter from Ministers QCA to CBPRA dated 25 September 2004 (Ref: TRO-06280);
- "F" Letters from Under Treasurer and Ministers QCA to CBPRA dated 23 May and 16 June 2005 (Refs: TRO-10852 and TRO-10952);
- "G" Letter from CBPRA to Under Treasurer dated 12 April 2006;
- "H" Letter from RJK to CEO SCRC dated 2 March 2009;
- "J" Letter from RJK to CEO SCRC dated 1 April 2009;
- "K" Letter from Treasurer to RJK dated 4 February 2008 (Ref: QTO-00946);
- "L" Letter from RJK to Under Treasurer dated 24 May 2010;
- "M" Letter from RJK to Treasurer dated 10 June 2010;
- "N" Letter from Treasurer to RJK dated 26 July 2010 (Ref: QTO-09535);
- "O" Letter from RJK to Treasurer dated 30 July 2010;
- "P" Letter from RJK to Treasurer dated 13 October 2010;
- "Q" E-mail communications from RJK to Treasurer 18 dated August to 7 October 2010;
- "R" Public submission from RJK to QCA dated 26 September 2010;
- "S" E-mail exchange with QCA dated 7 September to 8 October 2010.
- "T" Letter from CBPRA to QAO dated 26 February 2004;
- "U" Letter from QAO to CBPRA dated 30 April 2004 (Ref: 04-4573);
- "V" Letter from QAO to CBPRA dated 31 March 2005 (Ref: 00-2313);
- "W" Letter from CBPRA to QAO dated 6 April and QAO's response dated 7 April 2005;
- "X" RJK submission to PAC Inquiry dated 8 July 2005 and PAC rejection dated 11 August.