ACT Government
Chief Minister, Treasury and Economic Development
Our File No: EXC:2016/01875

Ms Dorte Ekelund
Director-General
Environment, Planning and Sustainable Development Directorate
Dorte.Ekelund@act.gov.au

Dear ~~Ms Ekelund~~ Dorte

Revised Draft Report: Pre-feasibility Assessment of Alternative Management and Funding Models for Sustainable Operation and Maintenance of Stormwater Water Quality (WQ) Assets in the ACT

I am writing to you in relation to the *Revised Draft Report: Pre-feasibility Assessment of Alternative Management and Funding Models for Sustainable Operation and Maintenance of Stormwater WQ Assets in the ACT* (the draft report). I would like to take this opportunity to bring to your attention the key concerns held by Treasury with the draft report and its proposed recommendations.

In particular, Treasury does not support the preferred option of transferring the WQ assets to Icon Water, combined with the introduction of a cost-reflective stormwater charge independently set by the Independent Competition and Regulatory Commission (ICRC).

When considering the best mechanism for managing and funding WQ assets, it is important to consider the nature of the assets. In particular, WQ assets are a public good that cannot be funded directly through a user pay system based on actual levels of consumption of the good by individuals. Should the assets be transferred to Icon Water, their ongoing management would still ultimately be reliant on the Government's ability to utilise its taxing powers to raise funding for their O&M.

As a result, a transfer of these assets to Icon Water would in effect see the Government defer its taxing capacity to a Corporation, which while Government owned, is designed to operate at arm's length from Government. I am also concerned this management approach would reduce Government control over how the assets are maintained in the future, and reduce flexibility for the Government to allocate its resources according to its broader priorities.

Treasury also notes the additional regulatory costs that would be incurred should the ICRC be used to determine the stormwater charge, and the proposal to use a Community Service Obligation mechanism to provide Icon Water with a return on and return of capital associated with WQ assets.

I note the consultancy work is based on a key assumption that there is a funding shortfall of more than $4 million per annum for the ongoing operation and maintenance (O&M) of WQ assets. However, it is important to consider that, on a number of occasions Treasury has advised there is no funding shortfall associated with the Budget appropriation provided to Transport Canberra and City Services Directorate (TCCSD) for the O&M of WQ assets. Rather, the 'funding shortfall' is a result of the internal allocations of appropriated funds by TCCSD to other cost pressures. The draft report acknowledges that a case for a funding shortfall has not been established, yet it proposes reforms to resolve it.

Treasury considers the draft report does not adequately explore the reasons behind why expenditure on O&M of WQ assets has been substantially lower than the level of funding appropriated to TCCSD for this purpose. Such detail may be useful in helping to determine whether the current level of expenditure on O&M of WQ assets has been sufficient, taking into account broader priorities of TCCSD and the Government.

I do not support the introduction of a separate stormwater charge as proposed, as funding for this activity is already recovered through general rates. However, I note the introduction of a separately identified charge would be possible, should the Government decide that it would be beneficial to separately identify the funding being raised for this specific purpose.

In moving forward, I consider there are mechanisms that can be implemented by the Government that would help ensure funds allocated in the Budget for O&M of WQ assets are used for that purpose, and not redirected. I support exploring other approaches such as establishing a separate output class within TCCSD for the ongoing O&M of WQ assets, where funds could be allocated and 'ring fenced' for a specific purpose. This approach would increase transparency about actual expenditure on O&M for WQ Assets, and allow for informed decisions to be made in the future to ensure that WQ assets are maintained in an efficient manner.

Treasury officials would welcome the opportunity to continue to work closely with officials from your directorate and TCCSD officials to implement reforms to the current approach to the management of the Territory's WQ assets. The key contact officer for this work within Treasury is Mr Alex Nockels, Senior Manager, Development and Infrastructure Policy Branch, Finance and Budget Division, who can be contacted on x74876 or at Alexander.Nockels@act.gov.au.

Yours sincerely

David Nicol
Under Treasurer
21 November 2016