Technical Paper 5

Operational Expenditure

September 2025

Central Coast Council | Water and Sewer

Contents

List of Figures

List of Tables

1 Key points

- **Operational efficiency** - Benchmarking provides the ability to compare Council's expenditure with other Australian water utilities. In the current determination, Council used benchmarking to assess the relative operational cost efficiency over the historical period from 2009 to 2024 (compared to other water utilities). Econometric[1] benchmarking of operational expenditure (OPEX) used the Bureau of Meteorology's (BOM's) 2023-24 National Performance Report (NPR) database. This included connection numbers, mains length, volumes, and operational expenditure separately for the water and sewer businesses of water distribution. The results of the benchmarking show that Council has been, on average, efficient over the historical period of 2009-2024.

- **Performance in current determination** – operating expenditure in the current determination started lower than the allowance set by IPART, however over the course of the determination, the estimated variance between the IPART allowance and the actual operating expenditure will be 0.2% under the allowance or $1.1M.

- **Performance against other utilities** – the operating cost per property for water and sewer in 2023-24 was $871. Water was second lowest (between medium, large, and major utilities in NSW) at $395 ($2023-24) and sewer was fourth lowest at $476 ($2023-24). The state-wide average operational expenditure per property for water was $550 and sewer was $552.

- **Proposed operating expenditure** – The total proposed operational expenditure between 2026-2031 is $703.3M ($2025-26). Water is $351.4M and sewer $351.9M. Operating expenditure is increasing over the upcoming determination period mainly due to:
    - **Changing regulations –** increased monitoring, sampling, and disposal costs for both water and sewer. Additional climate change and environmental control requirements, increased dam audits, inspections, and site plan reviews (required by Dam Safety NSW)
    - **Water security –** investing in water conservation through our Central Coast Water Security Plan
    - **New technologies** – introducing new tracking technology to improve regulation and monitoring of the liquid trade waste lifecycle. Investment in a drawing management system (DMS) which will centralise all engineering documents related to Council's water and sewer assets.

[1] a method that uses statistical analysis to compare the performance of different entities (e.g., companies, organizations) against each other, while also accounting for relevant economic and market factors

- **Biosolids management** – increased contractor costs for the dewatering and removal of sludge at the sewage treatment plants (STPs).
- **Effective planning and Strategies** – investment into future strategies in relation to desalination plant, asset resilience, asset condition assessments, reticulation surveys, water distribution network models, Biosolids Strategy, Corrosion and Septicity Strategy and onsite power generation.

- **Base trend step** – Council submits the operating expenditure forecasts using the Independent Pricing and Regulatory Tribunal's (IPART's) Base-Trend-Step (BTS) format for its forecasting of operating expenditure. IPART defines the BTS approach as:
  - The base is the current efficient level of recurrent controllable operating expenditure
  - The trend is any predictable change in the efficient level of recurrent controllable operating expenditure due to output growth, productivity improvements and real input price changes
  - The step is any forward-looking step change in the efficient level of recurrent controllable operating expenditure due to a particular event, such as changes to regulation or the method of delivering a service.

- **Efficiency target** – to minimise bill impacts, Council has set an efficiency target of 0.7% per year. The Cost Efficiency Strategy outlines the plan and Council's accountability to this target to keep the community updated.

2 Operational efficiency

Council's efficiency benchmarking result suggests that Council's operating expenditure for both water and sewer has been efficient (on average) over the historical period between 2009-2024.

Council is expected to demonstrate the efficiency of the baseline operational expenditure using benchmarking analysis and provide justification for any deviations from forecast base-year allowance determined by IPART.

Benchmarking was used by IPART to assess the relative cost efficiency of Council over the historical period from 2009-2024, compared to other water utilities for the required operational expenditure in the current determination.

To perform benchmarking Council used econometric[2] benchmarking using Stochastic Frontier Analysis[1] (SFA) of operating expenditure for water utility using the Bureau of Meteorology's (BOM's) 2023-24 National Performance Report (NPR) database (refer Figure 1). This dataset contains information on water utilities in Australia, including connection numbers, mains length, volumes and operating expenditure for water and sewer businesses of water distribution utilities.

Council conducted benchmarking for water and for sewer separately, comparing the business with other water businesses of a similar size for accuracy, which included a 'Major' only sample and the combined 'large' and 'major' samples of water businesses.

Council's benchmarking involved comparing real operational costs to three key factors driving operating expenditure:

- Water supplied
- Number of connections
- Mains length.

[2] Econometric modelling is an economic tool that uses standard inputs to compare against performance of other Water utilities. It involves mathematical analysis to test different hypotheses to determine comparisons.

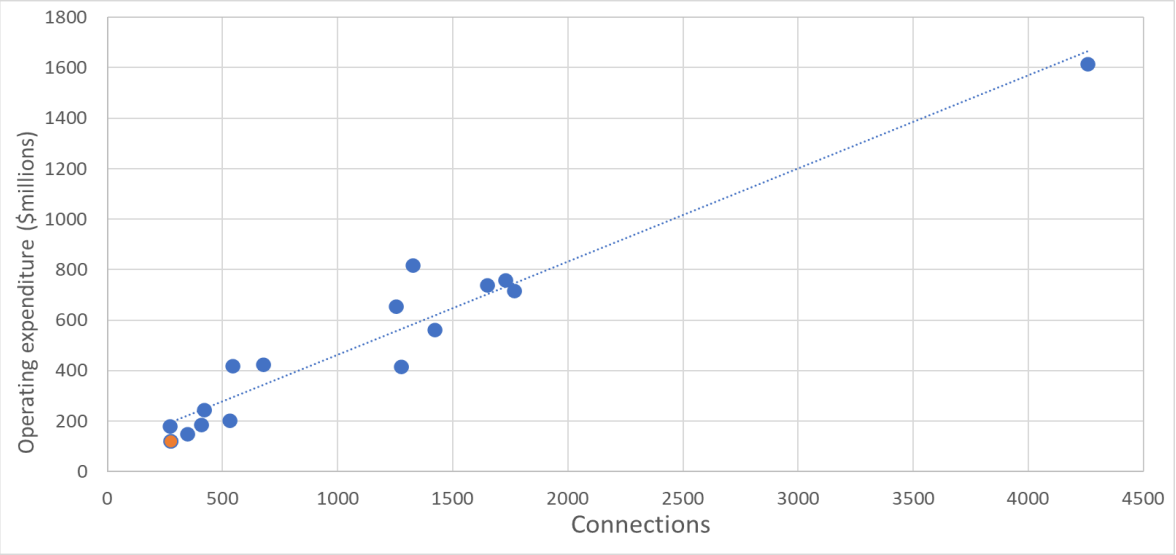


Figure 1: Council analysis based on 2023-24 National Performance Report

From the analysis, Council concluded that the only driver for water and sewer operating expenditure in the model was the number of connections for 'Major only', and 'Large and Major' combined samples. Table 1 below shows the relationship between property connections and operating expenditure.

The resulting estimates of efficiency for Council are provided below. Table 1 also presents the estimates of efficiency if all drivers of operating expenditure are included in the econometric models.

Table 1: Estimated efficiency of Council benchmarking

	Sewer		Water	
Sample	Connections only	All drivers	Connections only	All drivers
Major only	95.0%	93.1%	78.3%	74.1%
Large and Major	90.1%	88.8%	84.8%	78.8%

The efficiency estimates suggest that Council's operating expenditure for both water and sewer has been efficient, on average, over the historical period 2009-2024. Further, the analysis facilitates a comparison of efficiency scores against peers, presented in Table 2. These results further support an argument that Council has incurred efficient operating expenditure over the 2009-2024 period.

Table 2: Estimated efficiency ranks used for benchmarking

Sample	Sewer	Water
Major only	85th percentile	89th percentile
Large & Major	79th percentile	88th percentile

While the evidence of average efficiency suggests that Council has on average incurred efficient operating expenditure over the 2009-2024 period, a key element is the evaluation of the efficiency of the base year operating expenditure to the benchmarked operating expenditure. To perform this evaluation, Council has obtained the benchmarked estimated operating expenditure for water and sewer individually with 75% efficiency in real $2025-26. The estimated operating expenditure for water and sewer was obtained using the average of the large/major and major only estimates to obtain a final point estimate for water and sewer operating expenditure. Due to the statistical uncertainty of the economic model, Council applied an upper and lower bound to the estimated operating expenditure. If Council's actual base operating expenditure falls within the upper and lower bound, it is deemed to be sufficiently efficient. Table 3 below provides the comparison of the estimated operating expenditure to Council's actual base operating expenditure.

Table 3: Comparison of Councils benchmarked estimated operating expenditure to actual base operating expenditure ($2025-26, $M)

$2025-26, $M	Upper bound	Lower bound	Midpoint	Actual base operating expenditure
Water	73.3	54.7	63.3	65.4
Sewer	67.2	59.2	64.4	67.9
Total	140.5	114	127.8	133.2

The comparison of the estimated efficient operating expenditure to the actual base operating expenditure indicates that Council's actual base operating expenditure for water and combined water and sewer falls within the upper and lower bound obtained from benchmarking analysis, suggesting that Council's proposed base operating expenditure is deemed efficient. Sewer is marginally above the upper bound, however, customer prices and impact is ultimately based on the total combined operating expenditure, therefore, the total operating expenditure falling within the benchmarked upper and lower bounds is a key indicator of cost sustainability and efficiency. Thus, it can be concluded that Council's operating expenditure has not only been efficient over the 2009-2024 historical period, but Council's also proposed base operating expenditure is adequately efficient to be used towards the next determination period.

3 Performance against other utilities

Council's water and sewer is classified as a "major" utility where the number of connections is greater than 100,000.

In comparison with other major utilities in Australia, in 2023-24 Council had the second lowest operational costs per property for water (behind Hunter Water). Council's sewer operational costs had the fourth lowest operating costs per property. Council treats all

sewage to a secondary, and in some instances, tertiary level[3], where it is used for recycled water. This additional secondary treatment of sewage increases the operational costs, however, has positive environmental outcomes.

The low operating costs are despite having a relatively long water and sewerage network servicing the population, and due to the geography of the region and the physical barriers created by the lakes, estuaries, and lagoons.

The most recent NPR reporting (2023-24) highlights that Council continues to be a low-cost service provider. Please refer to Figure 2 and Figure 3 below.

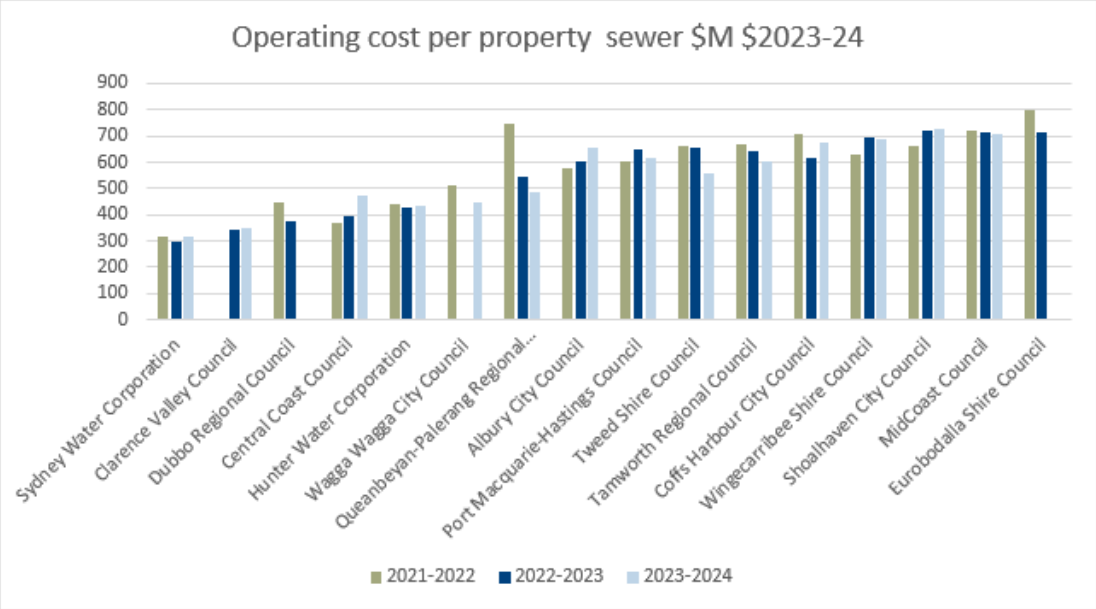


Figure 2: OPEX cost per property 2023-24 sewer – National Performance Reporting (NPR)

- [3] **Primary Treatment:** This initial stage removes large solids, debris, and grit from the wastewater. It often involves screening and sedimentation tanks where solids settle to the bottom, and oils and grease float to the top for removal.
- **Secondary Treatment:** This stage relies on biological processes, typically using bacteria to break down organic matter and reduce pollutants like nitrogen and phosphorus. Various methods, such as activated sludge or biological trickling filters, can be employed.
- **Tertiary Treatment:** This optional, advanced stage further polishes the treated wastewater to improve its quality. It may involve advanced filtration techniques like reverse osmosis or microfiltration, followed by disinfection to remove any remaining pathogens.

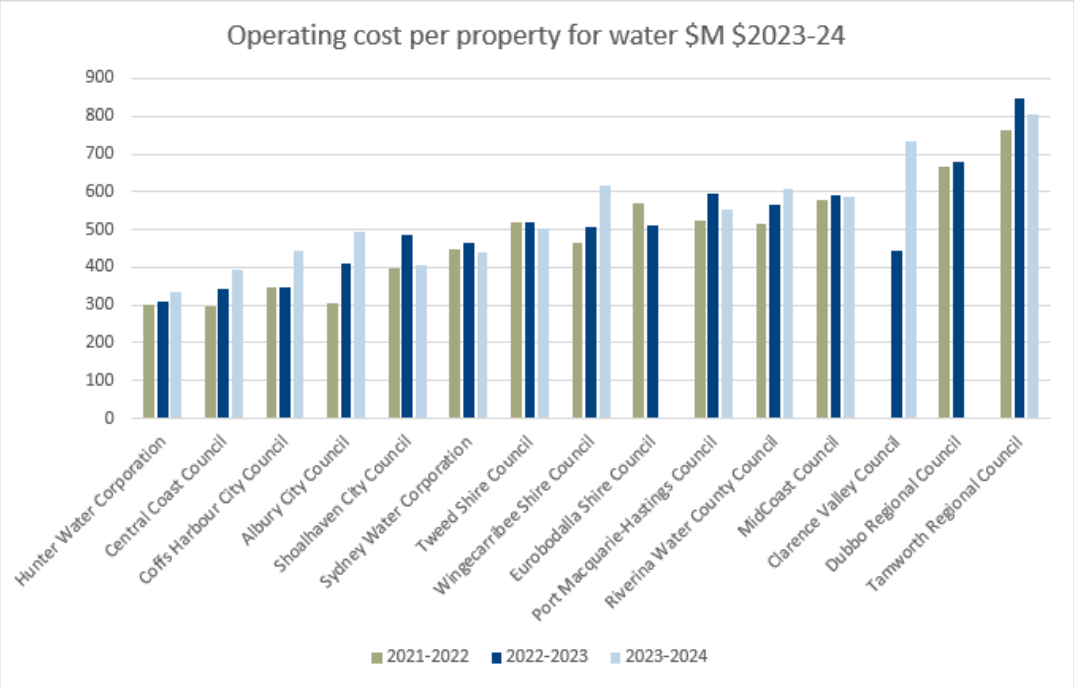


Figure 3: Operating costs per property 2023-24 water source National Performance Reporting (NPR)

4 Implementing the Transition strategy

In the current determination, Council made a commitment to the community to implement a Transition Strategy where the key objectives of this Strategy were to:

- Implement the Asset Management plans to improve planned maintenance activities
- Improve capability with experienced resourcing
- Enhance asset systems, monitoring and reporting for our community.

4.1 Asset Management

Asset management plans have been finalised in addition to the asset maturity assessment and Asset Management Improvement Plan. Preparation of the Water and Sewer Asset Information Strategy commenced in 2023-24 and various improvement plan actions are underway in 2024-25.

4.2 Resourcing

In the 2022 Transition Strategy, Council needed to ramp up its resourcing to deliver the required services to our community. Following on from Council's financial crisis in 2020-21, Water and Sewer reduced its full-time employees (FTEs) from 324 to 261.5. This represented a reduction of 19.3%. It was forecast that by 2026 there would be an increase of 835 dwellings, 3,000 people and additional 53 km of main (totalling approx. 1,990 km water reticulation mains and 2,285 km of sewer gravity mains) to maintain.

Council identified the need to increase its FTEs to 390 to maintain and improve its services.

Council is on track in achieving its target (refer Figure 4). The total workforce per 1,000 properties has increased to 2.34 (2023-24) from 1.89 (2020-2021) refer Appendix B. The slow increase to resourcing has been a major factor for increasing the transition to planned maintenance predominantly in the electrical and mechanical areas.

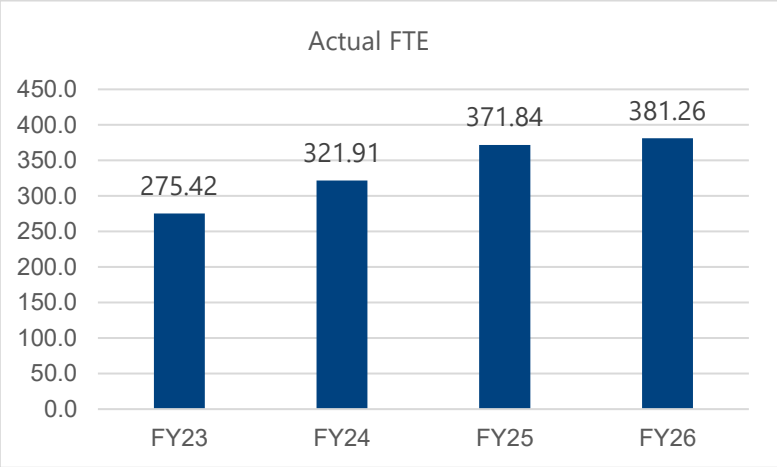


Figure 4: Actuals/budgeted FTEs (includes both capital and operational FTE resource allocation)

In the "Local Water Utility Performance reporting" Council is compared with other major utilities (>10,000 properties) of total workforce per 1,000 properties. The weighted median over the last four years for major water utilities has remained steady between 3.33 to 3.61 per 1,000 properties. Whilst there has been an increase from 1.89 to 2.34, Council is still below the weighted median (refer Appendix B).

4.3 Resource Utilisation

During the current determination period, Council has continued to implement the Transition Strategy with a significant improvement in the balance between reactive and preventative maintenance utilising a planned regime.

The improvement has led to positive impacts to the community in relation to asset performance including a reduction in unplanned water service interruptions (refer Technical Paper 2 for service level performance).

The planned regime embarked upon, involves scheduled maintenance activities designed to prevent equipment failures and extend the lifespan of the assets. This is based on data and insights gathered from inspections and operational tasks.

Analysis was completed to compare reactive to preventative maintenance undertaken by Council using the available work order (WO) data captured between 03/01/2021 and 14/05/2025.

The graph in Figure 5 shows the completed or closed work orders, which shows an increase in planned maintenance work orders recorded between 2023 and 2025 and a relatively stable volume of reactive work orders. This aligns with the commencement of Sewage Pump Station (SPS) and Water Pump Station (WPS) maintenance programs in financial year (FY) 23 and Maintenance Service implementation in FY24. The data used in this graph is for all water and sewer and, of note, the data capture of works completed has been improving over the determination.

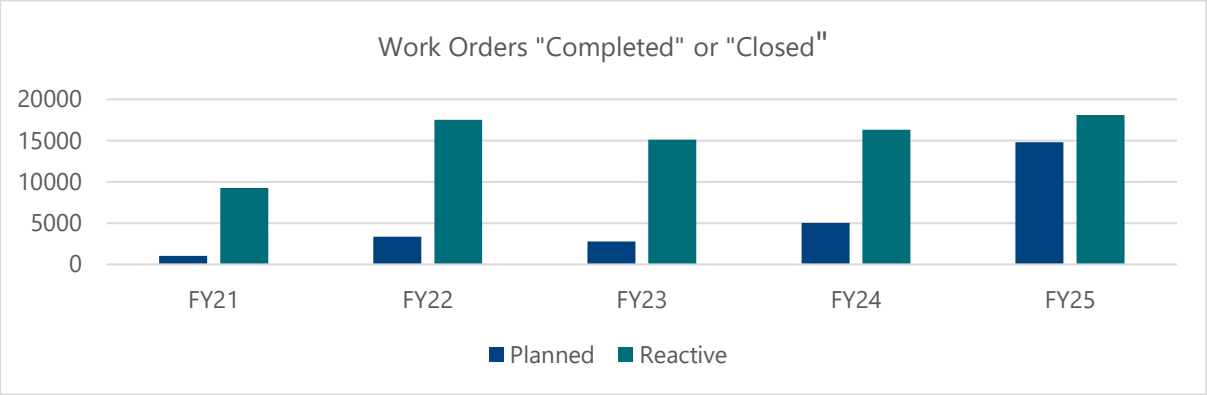


Figure 5: Work orders completed or closed

Figure 6 shows all WOs raised between 03/01/2021 and 14/05/2025 - the difference in data when comparing to Figure 5 is the inclusion of cancelled work orders. This shows that due to the challenging recruitment environment Council has experienced over the past three years, not all proposed works in preventative maintenance were able to be completed. However, as Council continues to evolve new strategies to address this, there is confidence of an upward trend.

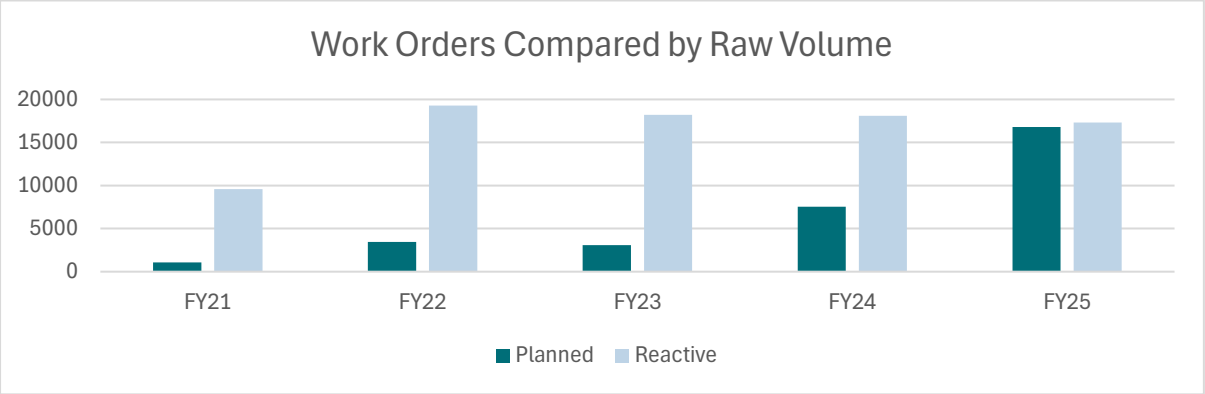


Figure 6: Work orders compared by raw volume

Focusing on the 2025 financial year where the resourcing and data capture is at its most mature, the pie chart in Figure 7 depicts the journey of the planned regime Transition Strategy to improve preventative maintenance. The preventative maintenance has been broken up by activity types to show resource utilisation, the activity types are detailed below.

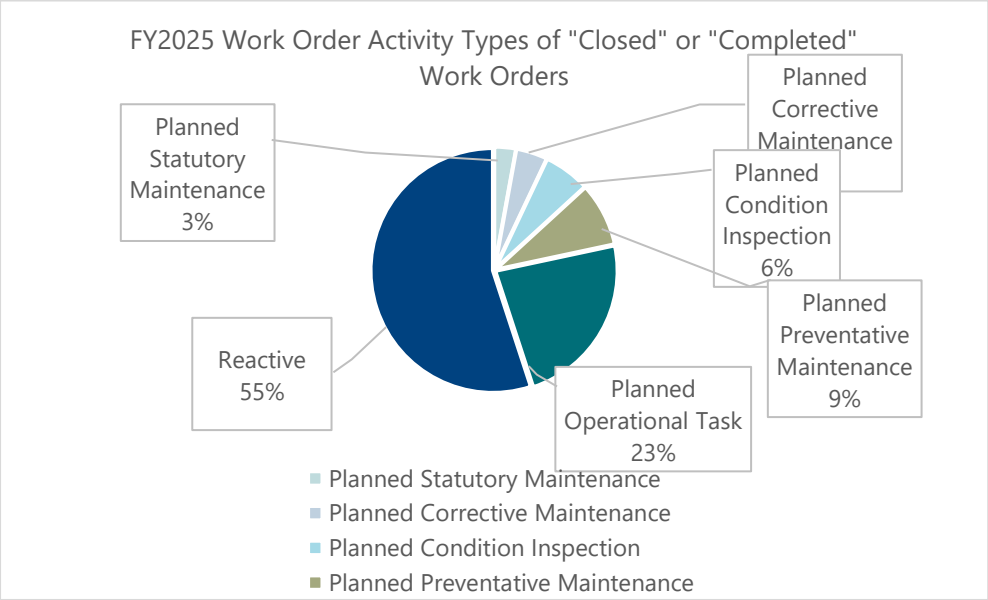


Figure 7: FY25 Work order maintenance activity types

Operational tasks ensure the smooth running of equipment. This includes routine operator checks of assets as well as upkeep such as flushing of water mains.

Inspections are crucial for identifying potential issues before they become major problems. Inspections also allow for the appropriate level of maintenance to be forecast. This involves scheduled checks of equipment and systems to assess their condition and performance.

Statutory Maintenance has been a priority to adhere to legal and regulatory requirements for maintenance. It ensures that operations comply with safety and environmental standards.

Planned Corrective is a result of maintenance completed on an asset of poor condition or failure has been proactively identified through inspections.

Planned Preventative is maintenance on an asset that is still operational but works will improve operation or extend the asset life. The schedule is typically assigned based on initial condition assessment and industry best practise.

By following these activity types, Council is transitioning from a reactive approach to a proactive, planned regime. This structured approach helps in managing resources effectively, addressing skills shortages, and ensuring that maintenance activities are carried out efficiently.

As the strategy is matured, the outcome of inspections completed, and feedback of Planned Operations will lead to a greater need of resources to complete the Planned Preventative that will be forecast. Council will endeavour to utilise resources to alter the balance of these activity types, to have a higher percentage of Planned Preventative.

The ongoing asset management improvement journey that has been assisted with the implementation of Water and Sewer Asset Management Improvement Program (WSAMIP) initiatives. Some of the areas that Council will be focussing on will include network infrastructure civil assets, reveal and seal programs for manholes, preventative risk and performance based relining programs all with a continual improvement focus.

4.4 Efficiencies delivered in current determination period

Over the current determination period Council has focused on improving services to our community as well as ensuring that they are delivered with prudency and efficiency through innovation.

4.4.1 Detailed efficiencies delivered ($2025-26)

Procurement and contract management estimated efficiency $4.79M in reduced administrative and labour costs

The Water and Sewer Directorate has implemented a range of contractor panels to achieve time efficiencies in the tendering, contract approval and award phases, to ensure capital works are delivered using the most efficient strategies available.

There has been an implementation of several long-term contracts for service provisions to deliver capital projects and programs. These contracts negate the need to tender individually for services the business requires on an ongoing basis.

Council has realised the efficiencies of this delivery method through:

- **Cost efficiency** – competitive pricing – being able to redirect evaluation weightings towards price as previous experience and key personnel are known and not assessed.
- **Quality and reduced risk** – International Organisation for Standardisation (ISO) accredited, compliance, financial assessments completed - being able to redirect evaluation weightings towards methodology as previous experience and key personnel are known and not assessed.
- **Strategic relationship** – detailed understanding of contractor capabilities/Council's requirements and quality expectations.

Sewer pump station and treatment plants – standardisation and packaging $0.87M per annum

Over the current determination, Council has begun standardising specifications across Sewer Pump Stations (SPS) this has improved efficiency across various processes reducing variability, reducing completion times and increased productivity. In addition, Council has implemented contract packaging across multiple sites related to both SPS and Sewage Treatment Plants (STPs).

Alarm rationalisation - $0.27M per annum

This project sought to apply a constant methodology of controlling Council's STPs and Water Pump Stations (WPS), control valves and reservoirs to reduce the volume of alarms being generated from a single site and develop and implement a consistent SCADA[4] template across all assets. This included using SCADA to optimise chemical dosing at sewer pumping stations and a chemical dosing unit report that allows for quick and easy access to 35 sites enabling real time monitoring of chemical storage levels.

State Government demand response - $1.03M per annum

A NSW Government initiative where large business with high energy use can provide firming capacity to supply and demand during grid emergencies or periods of high demand. The Firming Capacity program can provide revenue streams to Council thereby reducing energy expenditure. Commercial and Industrial energy users are rewarded for being on standby and for reducing their energy usage, when called upon. It involves switching off or "curtailment" of selected loads at six of Council's sewage treatment plants during periods of high electricity grid demand.

STP improvements - $0.22M

Replacement of diffusers at Bateau Bay STP. Increased efficiency from new diffusers has reduced aeration hours from 22.5 hours per day down to approximately 16 (resulting in power savings). The diffuser replacement has improved the performance of the plant and reducing impact to the environment.

Value Engineering - Mardi Water Treatment Plant $5.44M (not achieved)

In the current determination, Council identified potential efficiencies of $5.44M by bundling other projects that could be completed at the same time to reduce the risks of multiple shutdowns and costs associated with engaging a separate contractor. Whilst the process to execute the strategy was implemented, the cost of delivering the project exceeded the original budget. This was due to the cost inflation between 2022-26 and the impacts on the cost of materials, particularly in the construction industry where there were increases in costs for materials including supply chain interruptions.

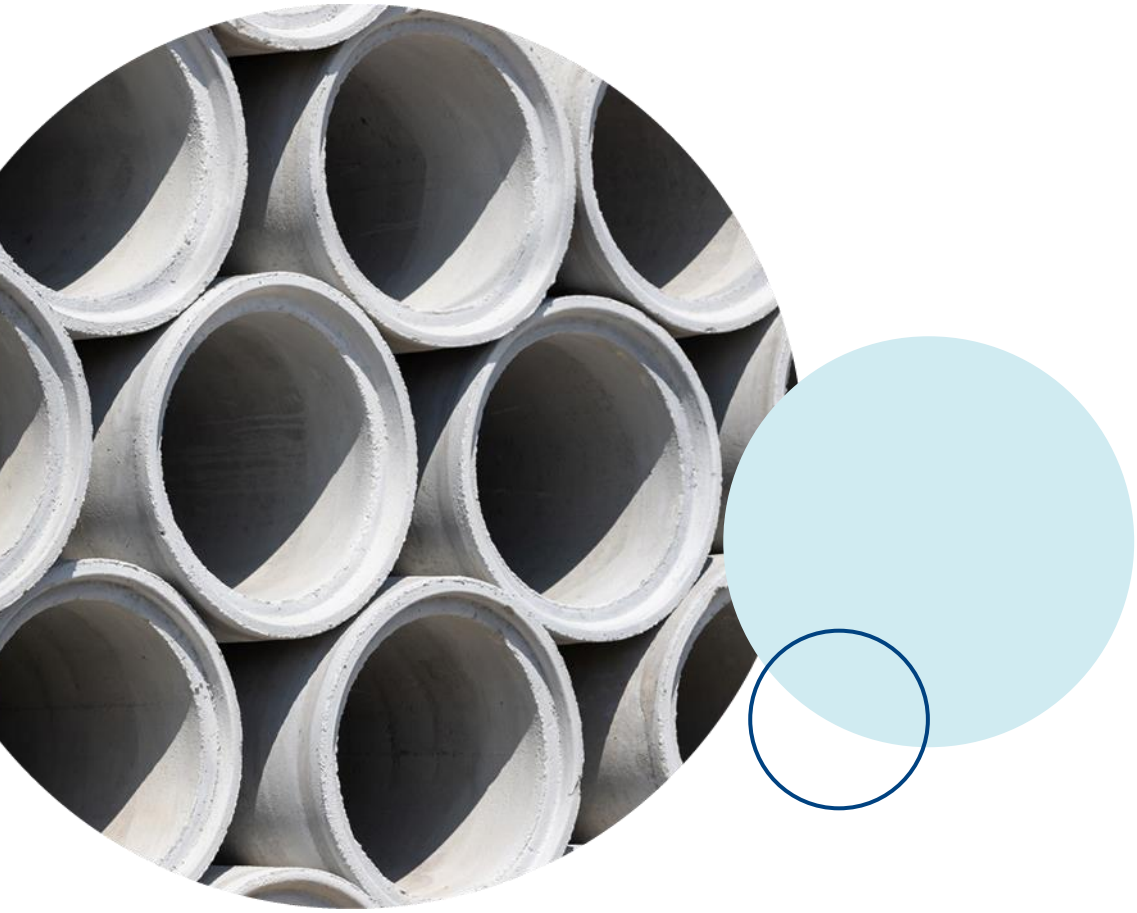
[4] SCADA - Supervisory Control and Data Acquisition. It's a system used to monitor and control water and sewer processes, for infrastructure and equipment. SCADA systems gather data from the field (using devices like sensors and PLCs), analyse it, and present it to operators,

Value engineering – Mains renewal program $0.44M p.a

Council's Water and Sewer Directorate successfully tested new, innovative condition assessment technology for water and sewer pressure pipelines. The technology improves strategic and tactical decision-making for planned renewals and upgrades. In addition, the technology also reduces water outages and decreasing environmental and safety risks during pipeline maintenance and repair works. The new assessment technology offers numerous advantages with a focus on customers, cost efficiency and the environment.

The technology sends pulses between existing surface fittings to detect issues in the pipe walls' integrity, all while the water continues to flow within the pipes to our customers. This improves water and sewer service reliability for our community as it is not necessary to always turn off the mains and disrupt water services during larger pipeline assessments.

This allowed Council to perform the site works related to condition assessment of these critical sewer mains within a couple of days with minimal environmental impacts. No excavation was needed to physically expose the mains for pipeline scanning as we do with older condition assessment techniques.



5 Operating expenditure in the current pricing period

Council's operating performance in the current pricing period for 2022-2026 began with an underspend in 2022-23 against the IPART allowance. This underspend was primarily due to difficulties in ramping up quickly to enable the securing of employees and procurement. The total expenditure across the full determination period is expected to be under the IPART allowance by 0.2%. Sewer is forecast to exceed the IPART allowance, water is forecast to be under the allowance while stormwater drainage trends close to the allowance (Table 4).

Table 4: IPART allowance to Council's actuals (forecasts year 4) ($2025-26) - totals may not add due to rounding

Service $M	Total IPART allowance	Total expenditure (actuals and forecasts)	Variance $ (Over) / under allowance	Variance % (Over) / under
Water	274.2	240.8	33.4	12.2%
Sewer	234.1	266.4	(32.3)	(13.8%)
Stormwater drainage	49.8	49.8	(0.0)	(0.0%)
Total	**558.1**	**556.9**	**1.1**	**0.2%**

Operational expenditure is influenced by the consumer price index (CPI) especially relevant to the materials and contracts costs where increases experienced by suppliers and contractors are passed through to Council. Over the current determination CPI fluctuated and rose with a high of 6% in 2022-23. (Refer Figure 8)

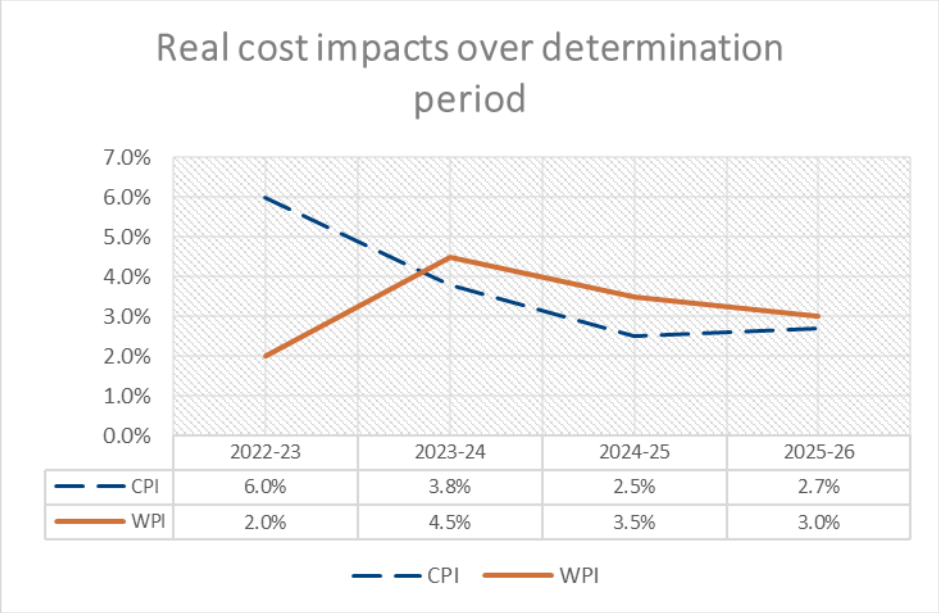


Figure 8: Real cost impacts over determination period

5.1 Performance for current determination

The four-year IPART operational expenditure allowance for Council was $483.7M ($2021-22) which equates to $556.9M ($2025-26) refer Table 65.

Table 5: IPART operational allowance $Real

Product	2022-23	2023-24	2024-25	2025-26	Total
Water	58.9	59.4	59.5	59.8	237.6
Sewer	50.3	50.8	50.8	50.9	202.9
Drainage	10.7	10.8	10.8	10.9	431.0
Total	**120.0**	**121.0**	**121.2**	**121.6**	**483.7**

Council's operating expenditure performance over the current determination (2022-26) was within the IPART allowance with an estimated underspend of $1.1M or 0.2%. (Refer Table 6 and Table 7)

Table 6: Operational expenditure performance for water, sewer, and stormwater 2022-26 ($2025-26)

$M	2022-23	2023-24	2024-25	2025-26	Total
	Actual	Actual	Actual	Forecast	
IPART Determination	138.4	139.6	139.8	140.3	558.1
Actual/Forecast	113.4	134.2	151.9	157.4	556.9
Variance $	**25.0**	**5.4**	**(12.1)**	**(17.1)**	**1.1**
Variance %	18.1%	3.8%	(8.7%)	(12.2%)	0.2%

Table 7: Operating performance by fund ($2025-26)

$M	2022-23	2023-24	2024-25	2025-26	Total
Water	**Actual**	**Actual**	**Actual**	**Forecast**	
IPART determination	68.0	68.6	68.7	69.0	274.2
Actuals/forecast	49.2	58.5	65.1	68.0	240.8
$ Variance	**18.8**	**10.0**	**3.6**	**1.0**	**33.4**
% Variance	27.6%	14.6%	5.2%	1.5%	12.2%
Sewer	**Actual**	**Actual**	**Actual**	**Forecast**	
IPART determination	58.1	58.6	58.6	58.8	234.1
Actuals/forecast	52.9	63.2	76.2	74.1	266.4
$ Variance	**5.2**	**(4.6)**	**(17.5)**	**(15.3)**	**(32.3)**
% Variance	9.0%	(7.8%)	(29.9%)	(26.1%)	(13.8%)
Stormwater drainage	**Actual**	**Actual**	**Actual**	**Forecast**	
IPART determination	12.4	12.4	12.5	12.6	49.8
Actuals/forecast	11.3	12.5	10.7	15.3	49.8
$ Variance	**1.1**	**(0.1)**	**1.8**	**(2.8)**	**(0.0)**
% Variance	8.6%	(0.7%)	14.4%	(22.3%)	(0.0%)

The following figure (Figure 9) shows Council's regulated expenditure in relation to the IPART allowance.

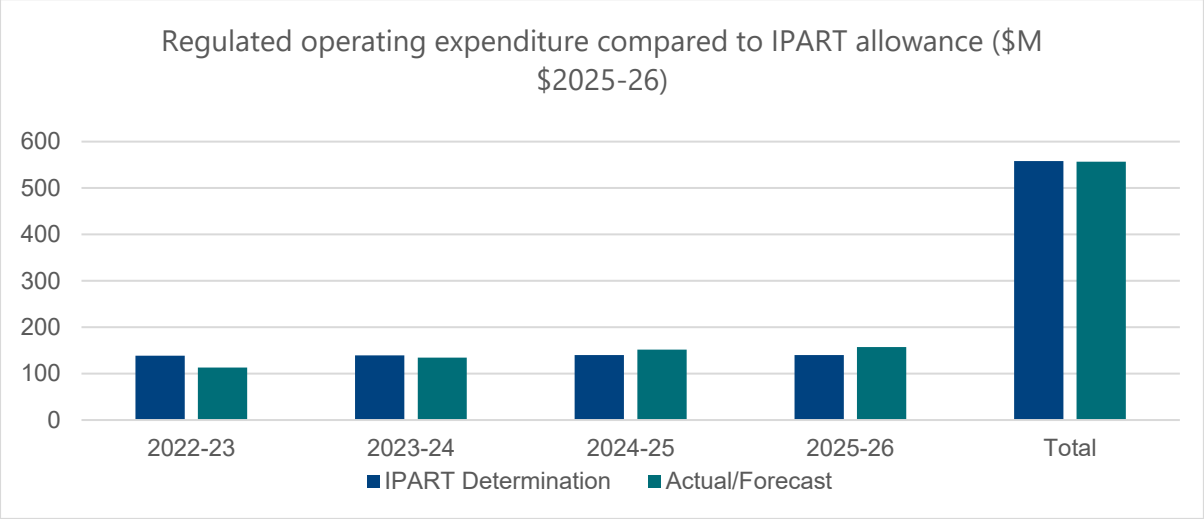


Figure 9: Operating performance compared to IPART allowance ($2025-26)

5.2 Water, sewer, and stormwater drainage Year one 2022-23

Table 8 shows the operational expenditure for water, sewer, and stormwater drainage for the 2022-23 financial year. The largest underspend was for labour, consultants/contractor, materials, and corporate overhead costs. The primary reasons for the underspend were the economic conditions, time taken to ramp up resourcing and logistical issues.

Table 8: Operating expenditure water and sewer actual to IPART allowance ($2025-26)

Account $M	IPART allowance	Council actuals	Variance $ (Over) / under allowance
Water			
Labour – Including Employee Provisions	24.9	15.8	9.0
External Consultants and or Contractors	9.6	4.6	5.0
Plant and Fleet	3.3	4.2	(0.9)
Licence Fees	0.5	0.6	(0.2)
Materials	7.1	5.1	2.1
Energy	5.0	5.3	(0.3)
Bulk Water Purchases - Treated	0.8	0.6	0.1
Other Expenses	3.9	2.2	1.6
Corporate Overheads	13.0	10.8	2.2
Grand Total	**68.0**	**49.2**	**18.8**
Sewer			
Labour – Including Employee Provisions	20.1	16.1	4.0
External Consultants and or Contractors	9.1	6.7	2.5
Plant and Fleet	1.9	3.3	(1.4)
Licence Fees	0.2	0.5	(0.4)
Materials	4.6	3.4	1.2
Energy	5.4	7.4	(2.0)
Bulk Water Purchases - Treated	0.0	0.0	0.0
Other Expenses	3.5	4.5	(1.1)
Corporate Overheads	13.3	11.0	2.4
Grand Total	**58.1**	**52.9**	**5.2**
Stormwater Drainage			
Labour – Including Employee Provisions	2.3	2.1	0.2
External Consultants and or Contractors	1.4	1.7	(0.3)
Plant and Fleet	1.2	2.3	(1.1)
Licence Fees	0.0	0.0	(0.0)
Materials	0.5	0.2	0.3
Energy	0.0	0.0	0.0
Bulk Water Purchases - Treated	0.0	0.0	0.0
Other Expenses	3.1	2.3	0.8
Corporate Overheads	4.0	2.7	1.2
Grand Total	**12.4**	**11.3**	**1.1**

Year one of the determination (2022-23) for water and sewer resulted in an underspend of $24M ($2025-26) or 19.0%. The underspend was related to resourcing, contractor constraints and an under allocation of Corporate overheads (related to the lower expenditure).

The IPART operational allowance for 2022-23 was $126.1M ($2025-26) $68.0M water and $58.1M sewer. The actual expenditure for Council was $102.1 ($2025-26) $49.2M water and $52.9M sewer.

Securing resourcing – changes to the operating environment and economic market post the IPART submission resulted in the availability of skilled resources. Apart from resourcing challenges in recruiting employees, there were challenges in engaging external contractors as evidenced by occasions where no responses received from contractors on Council's pre-approved panels. Labour expenditure for water and sewer represented an underspend of $13.1M ($2025-26). The underspend was attributed to the following.

- Time taken to recruit was on average of 60 days with the shortest timeframe being 46 days and longest being 91 days.
- 50% success in filling advertised positions – some positions showed no suitable applicants to interview, and others declined due to the pay rate offered and counteroffers.
- Annualised turnover ratio is at 12.8% for permanent positions compared to a historical turnover rate of approximately 8.0%.
- Vacancy rate was at 13.6% for permanent positions which was higher than other directorates within Council.
- Seek data showed that it was a candidate's market. With statistics from October 2021 showing a 63% increase in job ads posted compared to October 2020, and 44% increase compared to October 2019. This meant that Council was competing for talent, particularly in those professional spaces and specialist roles. What were once elements of attraction in terms of living and working locally, were no longer as significant. As remote working was created and presented alternative options for prospective applicants. While frontline roles were more easily filled, Council expected to be challenged in relation to attracting professionals to the organisation in what continued to be a highly competitive market.
- Looking at alternative resourcing options until positions could be recruited and filled – agency hire and day labour however this is not feasible for all positions as some were specialised roles.

Procurement constraints - delayed some works. In addition, global and local logistic issues resulted in difficulty securing materials or long lead times for delivery of equipment and materials including chemicals. Contractor expenditure for water and sewer represented an underspend of $7.5M ($2025-26). The underspend was attributed to the following:

- Global and local logistic issues resulting in difficulty securing materials or long lead times for delivery of equipment and materials including chemicals.
- Resourcing issues relating to the volume of works and limited availability of skilled resource – apart from resourcing challenges in recruiting employees there were challenges in engaging external contractors as on occasions where there have been no responses from contractors on Council's pre-approved panels.

Plant and Fleet - the overspend of $2.3M ($2025.26) was related to the low budget set in 2021-22. The amount was set with reference to the budget post Council's financial crisis. This reflected lower costs due redundancies, internal cost reductions (similar to corporate overheads) and less activity. However, when Council began its recovery, the recruitment increased as did the activity which surpassed the budget.

Corporate Overheads – the lower operational expenditure for water and sewer of $4.6M ($2025-26) resulted in a reduced overhead allocation. In 2022 apportionment of corporate overheads related to water and sewer was calculated based on the operating expenditure as a percentage of the total operating expenditure of the Council.

5.3 Water, sewer, and stormwater drainage Year two 2023-24

Table 9 shows the operational expenditure for water, sewer, and stormwater drainage for the 2023-24 financial year. The largest underspend again was for labour and to a lesser extent, consultants/contractor. The primary reasons for the underspend were again related to economic conditions, time taken to ramp up resourcing, an increase in employee churn and Mardi Water Treatment Plant using business as usual resources for capital works.

Table 9: Operating expenditure water and sewer actuals to IPART allowance ($2025-26)

Account $M	IPART allowance	Council actuals	Variance $ (Over) / under allowance
Water			
Labour – Including Employee Provisions	25.4	18.6	6.8
External Consultants and or Contractors	9.6	6.6	3.0
Plant and Fleet	3.3	4.9	(1.6)
Licence Fees	0.5	0.8	(0.3)
Materials	7.1	6.9	0.2
Energy	5.0	4.9	0.1
Bulk Water Purchases - Treated	0.8	0.7	0.1
Other Expenses	3.9	2.9	0.9
Corporate Overheads	13.0	12.4	0.7
Grand Total	**68.6**	**58.5**	**10.1**
Sewer			
Labour – Including Employee Provisions	20.7	19.5	1.2
External Consultants and or Contractors	9.1	8.4	0.7
Plant and Fleet	1.9	2.8	(0.9)
Licence Fees	0.2	0.7	(0.5)
Materials	4.6	7.0	(2.4)
Energy	5.4	6.6	(1.2)
Bulk Water Purchases - Treated	0.0	0.0	0.0
Other Expenses	3.5	5.0	(1.6)
Corporate Overheads	13.3	13.3	0.1
Grand Total	**58.7**	**63.2**	**(4.5)**
Drainage			
Labour – Including Employee Provisions	2.3	2.9	(0.6)
External Consultants and or Contractors	1.4	1.3	0.1
Plant and Fleet	1.2	2.0	(0.8)
Licence Fees	0.0	0.0	(0.0)
Materials	0.5	0.2	0.3
Energy	0.0	0.0	0.0
Bulk Water Purchases - Treated	0.0	0.0	0.0
Other Expenses	3.1	2.7	0.4
Corporate Overheads	4.0	3.5	0.5
Grand Total	**12.4**	**12.5**	**(0.1)**

Year two (2023-24) of the determination the total water and sewer IPART allowance for water and sewer was $127.3M ($2025-26) ($68.6M water $58.7M sewer). The actual expenditure for water and sewer was $121.7M ($2025-26) ($58.5M water & $63.2M sewer). This represented an underspend of $5.5M or 4.3%.

Similar challenges were experienced for 2023-24 as that in 2022-23, these included[5]:

- **Securing resources** –economic market and delays in on-boarding resulted in the delayed availability and recruitment of recruitment of skilled resources. However, the conditions improved and the actuals for labour increased from $31.9M in 2022-23 to $38.1M in 2023-24.
- **Procurement challenges** -Mainly in relation to available resources, time to procure contractors, securing market supplies (e.g., solid chlorine). Again, actuals increased from the 2022-23 to 2023-24 from $11.2M to $15.0M.
- **Employee churn** – An average churn rate between 9-10% (2020-21 being the exception where the churn rate was 22%). This also is attributed to an ageing workforce.
- **Large projects (MWTP**) - impacts on Business as usual (BAU) crews for required preparation works for the Mardi Water Treatment Plant shutdown.
- **Materials**- Material costs increased due the capitalisation process and the Works in Progress adjustment transferring costs from capital to operational of $4.2M.

[5] Unless otherwise indicated, all dollars are expressed in $2025-26

5.4 Water, sewer, and stormwater drainage Year three 2024-25

Table 10 shows the operational expenditure for water, sewer, and stormwater drainage for the 2024-25 financial year. Resourcing (labour) began to ramp up and the underspend in water was offset by the overspend in sewer. Sewer experienced an increase maintenance related activity (inspections).

Table 10: Operational expenditure water and sewer actuals to IPART allowance ($2025-26)

Account $M	IPART allowance	Council actuals (unaudited)	Variance $ (Over) / under allowance
Water			
Labour – Including Employee Provisions	25.6	20.9	4.6
External Consultants and or Contractors	9.6	8.2	1.4
Plant and Fleet	3.3	5.5	(2.2)
Licence Fees	0.5	0.7	(0.2)
Materials	7.1	6.1	1.0
Energy	5.0	4.6	0.4
Bulk Water Purchases - Treated	0.8	0.8	(0.0)
Other Expenses	3.9	5.0	(1.1)
Corporate Overheads	13.0	13.2	(0.2)
Grand Total	**68.7**	**65.1**	**3.6**
Sewer			
Labour – Including Employee Provisions	20.7	25.2	(4.5)
External Consultants and or Contractors	9.1	11.0	(1.9)
Plant and Fleet	1.9	4.3	(2.4)
Licence Fees	0.2	0.6	(0.4)
Materials	4.6	6.4	(1.8)
Energy	5.4	5.9	(0.5)
Bulk Water Purchases - Treated	0.0	0.0	0.0
Other Expenses	3.5	9.0	(5.5)
Corporate Overheads	13.3	13.7	(0.3)
Grand Total	**58.7**	**76.2**	**(17.5)**
Drainage			
Labour – Including Employee Provisions	2.3	2.8	(0.5)
External Consultants and or Contractors	1.4	1.3	0.0
Plant and Fleet	1.2	2.1	(0.9)
Licence Fees	0.0	0.0	(0.0)
Materials	0.5	0.2	0.3
Energy	0.0	0.0	0.0
Bulk Water Purchases - Treated	0.0	0.0	0.0
Other Expenses	3.1	2.0	1.1
Corporate Overheads	4.0	2.2	1.8
Grand Total	**12.5**	**10.7**	**1.8**

Year three (2024-25) of the determination the total water and sewer IPART allowance for water and sewer was $127.4M ($2025-26) ($68.7M water $58.7M sewer). The draft actual expenditure for water and sewer is $141.3M ($2025-26) ($65.1M water & $76.2M sewer). This represents an overspend of $13.9M.

The overspend is attributed to[6]:

- **Securing resources** – the labour costs increased to $46.2M in 2025-26 an increase of $8.1M. This resulted from the expenditure required to support the Transition Strategy attributed to the follow initiatives:
    - Employing an additional 66.3 staff (based on 20/21 actuals) with the experience to support the transition to preventative maintenance.
    - There was also a movement in actuals costs to sewer mainly due to the increase of reactive works, and an increase in inspections related to sewer assets.
- **Procurement** – securing contractors and consultants saw the contractor expenditure increase from $15.0M to $19.2M an increase of $4.2M. This increase was related to additional sludge removal costs at the treatment plants.
- **Plant and Fleet** – the original budget set for plant and fleet used the 2020-21 submission forecast budget, was set after Council's financial crisis. This reflected lower costs due redundancies, internal cost reductions (similar to Corporate overheads) and less activity.
    - The increase in Plant and Fleet costs is also in line with the increase in recruitment. over this period,
    - Plant and Fleet was used to remove the sludge at Mardi (additional cost) in support of the Mardi Water treatment Plant upgrade. External plant was required which increased the costs. In addition, the removal of sludge from the Kincumber treatment Plant[7].
- **Other –** The actuals for other has increased by $6.0M in 2024-25 across Water and Sewer. This was attributed to:
    - $2.1M was the Mardi Water treatment Plant corridor clean-up (increased tipping fees)
    - $1.1M Woy Woy Sewage treatment plant cleanout of the aeration tank
    - $1.8M Kincumber Sewage treatment Plant sludge removal.

[6] Unless otherwise indicated, all dollars are expressed in $2025-26

Plant & Fleet

•Depreciation – Depreciation has been calculated based on initial annual expected depreciation for each plant item, adjusted for variations in life expectancy informed by the depreciation as per the fixed asset register.

•Corporate Overheads – Corporate overheads charged to Plant and Fleet have been allocated through permanent hire fees as a % of the original purchase price.

•Direct Overheads (Fleet Services) – These are the costs to run Fleet Services including buy, sell, maintain, repair, shared materials, unchangeable time, facility costs, tooling, management cost etc. These have been broken down through a complexity model based on plant type and then allocated through permanent hire fees as a % of the original purchase price per category.

•Direct Cost Maintenance and Repairs - These have been broken down through a complexity model based on plant type and then allocated through permanent hire fees as a % of the original purchase price per category.

•Direct costs other – Where practical, direct charges have been allocated to the plant for items such as fuel, GPS, registration, CTP, Insurance, roadside service etc.

5.5 Water, sewer, and stormwater drainage Year four 2025-26

Table 11 shows the operational expenditure forecasts for water, sewer, and stormwater drainage for the 2025-26 financial year. Changes to expenditure for tipping costs shows a transfer of budget from 'Other' to consultants/contracts costs for sewer. This is to account for the changes to the contract related to dewatering and sludge removal.
The overall expenditure for water and sewer is expected to go over the IPART allowance by $14.6M ($2025-26) in relation to the increase in consultants and contractor costs related to sludge removal.

Table 11: Operational expenditure water and sewer forecast to IPART allowance ($2025-26)

Account $M	IPART allowance	Council forecast	Variance $ (Over) / under allowance
Water			
Labour – Including Employee Provisions	25.7	22.8	2.9
External Consultants and or Contractors	9.6	12.9	(3.3)
Plant and Fleet	3.3	5.0	(1.7)
Licence Fees	0.5	0.7	(0.3)
Materials	7.1	5.5	1.6
Energy	5.0	4.2	0.8
Bulk Water Purchases - Treated	0.8	0.8	(0.0)
Other Expenses	3.9	3.0	0.9
Corporate Overheads	13.0	13.1	(0.1)
Grand Total	**68.8**	**68.0**	**0.9**
Sewer			
Labour – Including Employee Provisions	20.7	24.4	(3.7)
External Consultants and or Contractors	9.1	17.0	(7.8)
Plant and Fleet	1.9	3.2	(1.3)
Licence Fees	0.2	0.6	(0.5)
Materials	4.6	3.9	0.7
Energy	5.4	6.3	(0.9)
Bulk Water Purchases - Treated	0.0	0.0	0.0
Other Expenses	3.5	5.0	(1.6)
Corporate Overheads	13.3	13.7	(0.4)
Grand Total	**58.6**	**74.1**	**(15.5)**
Drainage			
Labour – Including Employee Provisions	2.3	3.5	(1.2)
External Consultants and or Contractors	1.4	4.3	(2.8)
Plant and Fleet	1.2	2.3	(1.1)
Licence Fees	0.0	0.1	(0.1)
Materials	0.5	0.5	0.0
Energy	0.0	0.0	0.0
Bulk Water Purchases - Treated	0.0	0.0	0.0

Account $M	IPART allowance	Council forecast	Variance $ (Over) / under allowance
Other Expenses	3.1	2.8	0.3
Corporate Overheads	4.0	2.0	2.0
Grand Total	**12.6**	**15.3**	**(2.8)**

Year four (2025-26 forecasts). the forecasts against the IPART allowance shows an overspend for water and sewer of $14.6M ($2025-26) predominantly related to sewer and the costs associated with dewatering and sludge removal.

Consultants and Contractors – The increase in sewer expenditure is due to the change in the Australian Native Landscapes contract (ANL).

- Previously, the contractor (ANL) would remove the sludge from the Sewage treatment Plant and transport it to Buttonderry waste management facility. The tonnage cost for tipping was paid directly to Council's facility. From 2025-26 the tonnage cost will be included in the consultants/contractor overall forecast expenditure.

6 Proposed operating expenditure 2026-31

6.1 Base Trend Step

In line with IPART's regulatory framework, Council is required to submit their operational expenditure forecasts using a BTS methodology. IPART defines the BTS approach as:

- The base line operational expenditure is the current efficient level of recurrent controllable opex.
- The trend is any predictable change in the efficient level of recurrent controllable opex due to output growth, productivity improvements and real input price changes.
- The step is any forward-looking step change in the efficient level of recurrent controllable opex due to a particular event, such as changes to regulation or the method of delivering a service. It can also relate to non-recurrent costs that do not occur every year.

6.2 Setting the trend line

The trend is any predictable change in the efficient level of recurrent controllable opex due output growth, productivity improvements and real input price changes (consumer price index, wage growth) *source: IPART Water regulation Handbook July 2023 section 4 Elements of a pricing proposal.*

The trend is any factor that causes an indirect change in the base operational expenditure (opex) over time, and includes output growth, productivity improvements and price changes (consumer price index and wage growth).

The trend line consists of the following factors:

- **Output Growth** – The output growth is the annual change in opex due to rising population, increased connections, and the amount of water that needs to be produced. Council's output growth will be based on the relationship between customer connection numbers and efficient opex identified as part of benchmarking.
- **Real Price Growth** –The Real Price Growth factors in an equal weighting of Consumer Price Index (CPI) and Wage Price Index (WPI). Council has considered relevant market data when setting the real price growth, including labour and material costs. Based on Oxford Economics' forecast, the EGWWS (Electricity, Gas, Water and Waste Services) and construction real WPI and is projected to rise by an average of 1.0% and 0.8% per annum over the upcoming determination period. Furthermore, gas and fuel real price changes are projected to increase by 0.6% per annum. Council's applied input price growth factor is therefore an appropriate representation of labour and other cost inputs.
- **Productivity Growth** – Productivity Growth represents Continuous Efficiency, which is the rate of productivity improvement across the industry from one year to the next. This is usually measured by the difference in the annual efficient frontier (the maximum efficiency level across the industry). The productivity growth was applied

by IPART in the current determination period at 0.7%. The productivity growth for Council will use the Total-Factor-Productivity which is currently at 0.7%.

The trend line is calculated as follows:

Rate of Change (%) =
Output Growth (%) + Real Price Growth (%) – Productivity Growth (%)

The trend line is applied to the Base Efficient Opex (less non-recurrent and uncontrollable costs) to give the percentage increases to be applied over the determination period (2026-31) (Refer Table 12).

Table 12: Calculating the trend for water and sewer

Trend element	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Forecast output change – Water no# connections growth to OPEX	0.85%	0.79%	0.70%	0.62%	0.71%	0.70%
Forecast real input price change – Water real Wage price index weighted by 50%	0.55%	0.40%	0.35%	0.45%	0.55%	0.55%
Forecast productivity change - Water	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
Cumulative Trend	**0.69%**	**1.18%**	**1.53%**	**1.91%**	**2.47%**	**3.03%**
Forecast output change – Sewer No# connections growth to OPEX	0.68%	0.63%	0.56%	0.50%	0.56%	0.56%
Forecast real input price change – Sewer real Wage price index weighted by 50%	0.55%	0.40%	0.35%	0.45%	0.55%	0.55%
Forecast productivity change – Sewer	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
Cumulative Trend	**0.52%**	**0.85%**	**1.06%**	**1.31%**	**1.73%**	**2.14%**

6.3 Baseline recurrent controllable operating expenditure

Baseline recurrent controllable operational expenditure (opex) reflects the business's efficient recurrent controllable opex in the second last year of the current determination period. Council has set the baseline on the February 2025 actuals (annualised).

Waiting until the end of year actuals (August 2025) would not allow sufficient time for:

- tariff modelling
- communication with Councillors
- community engagement regarding price impacts and willing ness to pay scenarios
- submission completion to meet lodgement deadlines and internal sign off requirements.

The following adjustments were made to the February opex forecasts understanding anticipated changes:

1. The transfer of the Water Billing team from the general fund to the water and sewer fund
2. Additional costs associated with the Water Billing team transfer (cost of mailing, printing and contractor costs including meter readers)
3. A Water and Sewer restructure and the introduction of the Business Performance team where additional positions were filled during the year, however not representative of a full financial year expenditure
4. The introduction of the new sewer dewatering contract that transferred tipping costs to contracts (from other)
5. The removal of non-controllable costs from the base OPEX reducing licence fees and bulk water costs
6. The increase in chemical costs for the Mardi Water Treatment Plant (MWTP) completion related to the use of Ferric
7. The decrease in tipping costs due to the removal of MWTP sludge a non-recurring cost.

In addition, the baseline opex has been adjusted to:

- Remove non-controllable expenditure items to be forecast separately
- Remove one-off or non-recurring expenditure items incurred in the base year or add normally occurring items that were not incurred in the base year
- Remove additional cost savings or efficiency improvements expected or committed to in the final year of the current determination period, including any continuing efficiency improvement expectations set by IPART for the current period.

Council is expected to demonstrate the efficiency of the adjusted baseline opex using benchmarking analysis and provide justification for the adjustments and explain any deviations from the base-year opex allowance previously determined by IPART.

Council has performed econometric benchmarking of opex for water utilities using the Bureau of Meteorology's (BOM's) 2023-24 National Performance Report (NPR) database, where the dataset contains information on water utilities in Australia, including connection numbers, mains length, volumes and opex separately for the water and wastewater businesses of water distribution utilities.

From the analysis, Council concluded that it was most appropriate to compare the business to other large and major utilities only, and selected connection numbers as the main driver of opex. The resulting estimates of efficiency for Council are provided in the table below. The table (Table 13) also presents the estimates of efficiency if all drivers of opex are included in the econometric models.

Table 13: Benchmarking Council's efficiency of base OPEX

	Sewer		Water	
Sample	Connections only	All drivers	Connections only	All drivers
Major only	95.0%	93.1%	78.3%	74.1%
Large & Major	90.1%	88.8%	84.8%	78.8%

Council is, on average, efficient based on connections to expenditure as well as length of mains and volumes to expenditure.

The efficiency estimates suggest that Council's opex for both water and sewer has been efficient over the historical period 2009-2024. Further, the analysis facilitates a comparison of efficiency scores against peers, presented in Table 14.

Council has been in the top 15 percentile against its peers for sewer and in the top 11 percentile for water (against major utilities).

Table 14: Efficiency ranks against Council's peers

Sample	Sewer	Water
Major only	85th percentile	89th percentile
Large and Major	79th percentile	88th percentile

The total proposed operational expenditure between 2026-2031 is $703.3m ($2025-26). Water is $351.4M and sewer $351.9M. This is broken into the BTS model below Table 15, Table 16 and Table 17.

Table 15: Base trend step operational expenditure water and sewer $2025-26 millions

Component $M	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Base	133.2	133.2	133.2	133.2	133.2	666.1
Trend - Subtotal	1.4	1.7	2.1	2.8	3.4	11.4

Step changes	6.2	4.7	3.5	5.3	2.9	22.6
Controllable expenditure	**140.8**	**139.7**	**138.8**	**141.3**	**139.6**	**700.1**
Non-controllable	0.6	0.6	0.6	0.6	0.6	3.1
Total operating expenditure	**141.4**	**140.3**	**139.5**	**141.9**	**140.2**	**703.3**

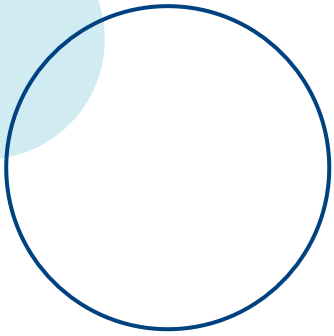


Table 16: Water operational expenditure forecasts in BTS $2025-26

Water Opex $M	2026-27	2027-28	2028-29	2029-30	2030-31	Total Determination
Base Opex	65.4	65.4	65.4	65.4	65.4	326.8
Trend percentage	1.2%	1.5%	1.9%	2.5%	3.0%	2.0%
Base OPEX with Trend	66.1	66.4	66.6	67.0	67.3	333.4
Non-Recurring Controllable Opex	4.3	3.0	1.8	3.3	2.4	14.8
Step Changes	0.2	0.2	0.2	0.2	0.2	1.0
Non-controllable	0.4	0.4	0.4	0.4	0.4	2.2
Total Opex	**71.1**	**70.0**	**69.0**	**70.9**	**70.4**	**351.4**

Note: totals may not add, due to rounding

Table 17: Sewer operational forecasts in BTS ($2025-26)

Sewer Opex $M	2026-27	2027-28	2028-29	2029-30	2030-31	Total Determination
Base Opex	67.9	67.9	67.9	67.9	67.9	339.3
Trend percentage	0.9%	1.1%	1.3%	1.7%	2.1%	1.4%
Base OPEX with Trend	68.4	68.6	68.8	69.0	69.3	344.1
Non-Recurring Controllable Opex	1.1	1.5	1.0	1.2	0.3	5.1
Step Changes	0.6	0.1	0.5	0.6	0.1	1.8
Non-controllable	0.2	0.2	0.2	0.2	0.2	1.0
Total Opex	**70.3**	**70.3**	**70.4**	**71.0**	**69.8**	**351.9**

Note: Totals may not add, due to rounding

6.4 Recurring base OPEX

The recurring base opex was set with reference to the February 2025 year to date totals and then annualised. Due to the new IPART requirements, adjustments needed to be made to the opex with the removal of both non-recurring and non-controllable expenditure items. In addition, expenditure that had not occurred, or occurred part way through the 2024-25 financial year that would not correctly be reflected in the annualised forecasts, were added.

Management of the budgeting process commenced in December 2024, where budget owners were requested to develop forward budgets for anticipated operating expenditure as well as expenditure items that were linked to changing regulations or required strategies. All requested expenditure had to be classified as either recurring or non-recurring. In addition, non-controllable expenditure was removed from the base opex (*refer section 6.3 Baseline recurrent controllable operating expenditure*).

6.5 Setting the base for operating expenditure (OPEX)

IPART requires that the base operating expenditure be based on the penultimate year (2024-25).

To set the base opex, Council used the February 2025 financial year to date opex and annualised these to use in the Building Block Model (BBM) with anticipated adjustments made that were not realised, however expected.

Allocation of operating costs to activities

The general ledger is set up with two funds, water, and sewer. The funds are further broken down to Unit and Section and costs are captured via work orders with defined activities (activity-based costing) or project numbers. These are used when ordering materials, working on a civil asset, ordering plant and fleet (as an example), or used for payment of consultants/contractors.
The forecast expenditure was allocated to these funds and cost categories to understand impacts to the 2026-31 operational expenditure.
When forecasting the operational expenditure for the 2026 determination, an iterative process was adopted, where each unit was required to:

- Review current expenditure in relation to service delivery
- Identify risks and asset failures in relation to service levels
- Understand expected pollution reduction programs and changing regulatory environment and
- Additional expenditure related to community discretionary spend.

Each Unit was then required to evaluate the additional expenditure in relation to the required expenditure. Any additional expenditure was reviewed by management (Unit Managers for each Section) to prioritise the requested expenditure and, where required, additional information was requested. Any request for additional expenditure had to be approved by the Director Water and Sewer.

Key expenditure assumptions

When setting the forecast operational expenditure, the key assumptions underpinning the forecasts are:

- There will be no further change to the regulatory environment
- The current retail contract for the purchase of energy expires in 2031 (large market) and June 2026 for small sites. No large increases for small sites are anticipated
- There are no current plans by Council to change the corporate overheads allocation model during determination period
- Plant and Fleet costs will remain stable.
- Operating expenditure has been forecast with reference to
    - existing asset set performance
    - connection forecasts
    - demand and volume of wastewater in relation to sludge removal
    - transition strategy.
- Average weather conditions assumed
- Increase in inflation in relation to cost of goods and wage increases has been factored into the trend factor
- No further changes to the organisation structure for water and sewer.

Below is a summary on setting the base and why base OPEX is different to the unaudited actuals for the 2024-25 financial year. (Table 18)

Table 18: 2024-25 annualised actuals compared to base opex ($2025-26)

IPART spend category $M	2024-25 annualised actuals $2025-26	Forecast base opex $2025-26	Increase / (decrease) $2025-26	Comments
Labour – Including Employee Provisions	41.0	46.1	5.1	Labour adj - FY26 structure $5.1M
External Consultants and or Contractors	16.5	21.7	5.2	$3.1M from Other Exp, $1.2M to bring recurring sludge contract to $6M, Water billing contract costs $0.8M
Plant and Fleet	8.5	8.5	0.0	
Licence Fees	1.4	1.0	(0.4)	Non controllable removed $0.4M
Materials	12.0	12.7	0.6	Mardi extra materials $0.6M
Energy	10.5	10.5	0.0	

IPART spend category $M	2024-25 annualised actuals $2025-26	Forecast base opex $2025-26	Increase / (decrease) $2025-26	Comments
Bulk Water Purchases - Treated	0.8	0.8	(0.1)	Non controllable removed $0.1M
Other Expenses	10.7	4.7	(6.1)	1) Non-recurring costs removed: $2.9M - Mardi Sludge removal (a one-off in FY25), and $0.4M EPA Fine (a one-off in FY25), 2) $3.1M Tipping fees moved to Consultants, 3) $0.6M from Water billing team
Corporate Overheads	27.4	27.4	0.0	
Grand Total	**128.8**	**133.2**	**4.4**	

6.5.1 Adjustments to base OPEX

Table 19 and Table 20 break down the base recurring OPEX into water and sewer.

Table 19: Base OPEX Water $2025-26 $M

IPART spend category	Base Opex $M
Labour - Including Employee Provisions	22.2
External Consultants and or Contractors	8.4
Plant and Fleet	5.1
Licence Fees	0.5
Materials	7.1
Energy	4.6
Bulk Water Purchases - Treated	0.8
Other Expenses	3.1
Corporate Overheads	13.5
Total Base Opex	**65.4**

Table 20: BASE OPEX Sewer $2025-26 $M

IPART spend category	Base Opex $M
Labour - Including Employee Provisions	23.8
External Consultants and or Contractors	13.3
Plant and Fleet	3.3
Licence Fees	0.5

IPART spend category	Base Opex $M
Materials	5.6
Energy	5.8
Other Expenses	1.5
Corporate Overheads	13.9
Total Base Opex	**67.9**

Labour including employee provisions increase to base from $41.0M to $46.1M total adjustment $5.1M

To calculate the 2024-25 labour forecast, we used the 2025-26 detailed labour budget and revised down to account for the 3% pay increase and 0.5% superannuation increase. This was to ensure that the 2024-25 labour forecast was not over inflated.

External consultants and or contractors increased from $16.5M (2024-25 annualised actuals used for base OPEX) to $21.7M Total adjustment $5.2M.

There have been several adjustments made to the forecast base OPEX for consultants and contractors. Most of the costs have come from how the sludge is managed in relation to tipping fees (previously in Other) and the renewal of the dewatering contract.

- $3.1M has been removed from Other and moved to Consultants and contractors for the change in the ANL contract where the tipping costs are now included in the contractor cost.
- Adding $1.2M to the existing dewatering contract increasing the dewatering costs up to $6M p.a.
- Including associated costs for the water billing team in relation to printing and postage $0.8M

Materials increase from $12M (2024-25 annualised actuals used for base OPEX) to $12.7M. Total adjustment $0.7M

The increase in materials is attributed to the increase in chemical costs for Mardi Water treatment Plant – increase in cost of Ferric $0.6M

Other expenses decrease from $10.7M (2024-25 annualised actuals used for base OPEX) to $4.7M. Total adjustment $6M.

The decrease is offset by the increase in consultants and contracts where sludge was previously costed separately from consultants and contractor and expensed to tipping fees (Other).

6.6 Non-controllable OPEX

Non-controllable costs as defined by IPART are those where the where the expense is set externally. This relates to items such as bulk water costs and regulatory licence fees (such as extraction licences). These costs are relatively low with an overall expenditure of $3.1M ($2025-26) over the determination period (Table 21).

Note: Council also has controllable bulk water and licence fees costs relating to Hunter Water bulk water purchases and software licence fees.

Table 21: Non-controllable opex $2025-26 $M

	FY27	FY28	FY29	FY30	FY31	Total Determination
Non-Controllable from base	0.5	0.5	0.5	0.5	0.5	2.3
Increase in Syd Water Purchases of Water	0.1	0.1	0.1	0.1	0.1	0.5
Dam Safety - net change	0.1	0.1	0.1	0.1	0.1	0.3
Total	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**3.1**

6.7 Non-recurring OPEX

Non-recurring OPEX are expenditure items that are cyclic. They may only occur once or twice over a determination period. They do not form part of the base OPEX which is the day-to-day costs of running a business. The only step change in the next determination period is the Benthic study. The average non-recurring opex across the determination is $4.3M per year (refer Table 22).

Table 22: Non-recurring opex $2025-26 $M

	FY27	FY28	FY29	FY30	FY31	Total Determination	Yearly average
Dam Safety Contractor costs	0.5	0.5	0.3	0.4	0.3	2.0	0.4
Assets and Planning Contractor costs	4.9	4.0	2.3	3.9	2.4	17.4	3.5
Business Performance Contractor costs	0.0	0.0	0.2	0.2	0.0	0.4	0.1
HW & Catchments - Benthic Study (step change)	0.5	0.0	0.4	0.5	0.0	1.4	0.3
Total	**5.9**	**4.5**	**3.2**	**5.0**	**2.6**	**21.3**	**4.3**

Non-recurring expenditure is underpinned by Dam safety requirements, environmental obligations and activities related to future planning requirements.

Table 23: Non recurrent OPEX detail ($2025-26)

Regulatory obligations	Unit	Topic	Total 5-year forecasts
Regulation- Dam Safety	Headworks and Treatment	**Dams (includes Mardi Creek, Dam, Mardi and Wyong South Treatment Plant)**	$2.04
		Dam security	
		Emergency response	
		Epoch movement survey	
		Surveillance reporting	
		Societal and individual risk rating	
Total			**$2.04**
Long term effective planning	Assets and planning	**Water resilience**	$8.4
		Desalination readiness	
		Water resource project	
		Update demand forecasts and tools	
		Porters Creek Gap analysis	
		CCWSP option development	
		Asset Management	$4.9
		Critical gravity main CCTV	
		Drawing management system implementation	
		STP sludge lagoon integrity investigations	
		Water tunnel inspections	
		Water and Sewer asset revaluation	
		Asset Planning	$4.3
		Domestic booster pump implementation	
		Biosolids strategy	
		Masterplan initiatives	
		Integration water servicing plan	
Total			**$17.4**
Regulation - Environmental	Headworks and Treatment	**Outfalls**	$1.4
		Benthic study	
Total			**$1.4**
Regulatory	Business Strategy and Performance	**Community engagement/Regulations**	$0.4
		Engagement /regulatory support	
Total			**$0.4**

Overall total			**$21.3**

6.8 Recurring step changes

Recurring OPEX step changes are expenditure items that are driven by changes to the regulatory environment. An example would be changes to the EPA guidelines related to PFAS testing or removal of biosolids rather than reuse. (Refer Table 244)

Table 24: Recurring step changes $2025-26 $M

	FY27	FY28	FY29	FY30	FY31	Total Determination
HW & Catchments - PFAS Water Testing	0.2	0.2	0.2	0.2	0.2	1.0
HW & Catchments - Liquid Trade Waste Tracking System	0.1	0.1	0.1	0.1	0.1	0.3
Total	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**1.4**

There are two recurring 'step changes' that are included in the forecast expenditure. that were not represented in the February 2025 forecast actuals. These additional costs are linked to regulatory drivers to ensure accountability and compliance.

PFAS water testing –
Central Coast Council is committed to assessing and managing the risk of per and poly-fluoroalkyl substances (PFAS) in drinking water across the region. Council adopts a site-specific, risk-based approach to monitoring chemicals of concern, including PFAS, in our drinking water supplies.
The guidelines are regulated through the EPA and Health and Medical research Council (NHMRC).
As part of this approach, Council has assessed the likelihood of PFAS sources within surface water catchments.

Testing is guided by the Australian Drinking Water Guidelines developed by the National Health and Medical Research Council (NHMRC), which define safe drinking water standards and include specific guideline values for PFAS in treated water.

Council's PFAS monitoring program includes:

- Surface waters
- Dams and water treatment plants
- Reticulation networks and Consumer monitoring points
- Groundwater bores (with particular attention to Woy Woy)

- Sewage treatment plant effluents and recycled water (RCW) plants
- Biosolids produced across the Central Coast
- This comprehensive monitoring ensures that Council can detect and respond to any potential PFAS risks, maintaining the safety and quality of the region's drinking water.

Liquid Trade Waste tracking system

Central Coast Council's liquid trade waste (LTW) section is responsible for overseeing the regulation and monitoring of approximately 1,500 customers discharging into the sewerage system. The current practice of managing compliance in relation to pre-treatment devices and tankering septic waste is for Council's LTW Officers to obtain copies of pump out dockets each time the pre-treatment device has been cleaned or via weighbridge/septic station records.

Council has engaged AMTAC Pty Ltd an experienced specialist, to implement a digital tracking system to monitor the transportation and disposal of K110 and J120 waste types. The digital liquid waste tracking system will provide Council with real-time monitoring of liquid waste transactions from the source to destination. This will reduce the time and manual processing of following up records from customers.

Department of Climate Change, Energy, the Environment and Water (DECCEW) Liquid Trade Waste Management Guidelines recommends that Councils in NSW have appropriate procedures in place to manage transported liquid waste within council's area irrespective of whether such waste is discharged to the council's sewerage system or not. This includes ensuring adequate maintenance of grease traps and septic tanks and preventing illegal dumping of the pump-out waste to the sewerage system or the environment. This is particularly important as there is no requirement for the transporters of septic waste and grease trap waste to hold NSW EPA licence when transporting such waste within NSW.

Council has implemented the recommendations of the DCCEEW by sourcing a digital tracking system to manage waste disposals, this will also align Council's liquid trade waste practices with that of industry leaders Sydney Water.

Table 255 below shows the total expenditure profile broken into the operational expenditure components.

Table 25: Water & Sewer average yearly opex by IPART spend category $2025-26 $M

IPART Spend category	Base opex	Non-recurring opex	Recurring step changes	Non-controllable opex	Total
Labour - Including Employee Provisions	46.1				46.1
External Consultants and or Contractors	21.7	4.3	0.3		26.2
Plant and Fleet	8.5				8.5
Licence Fees	1.0			0.5	1.4
Materials	12.7				12.7
Energy	10.5				10.5
Bulk Water Purchases - Treated	0.8			0.2	0.9
Other Expenses	4.7				4.7
Corporate Overheads	27.4				27.4
Total opex	**133.2**	**4.3**	**0.3**	**0.6**	**138.4**
Add: trend (average)					**2.3**
Total opex including trend					**140.7**

Council's forecast base operating expenditure by cost category for water and sewer for 2027-31 is represented in Figure 10 and Figure 11.

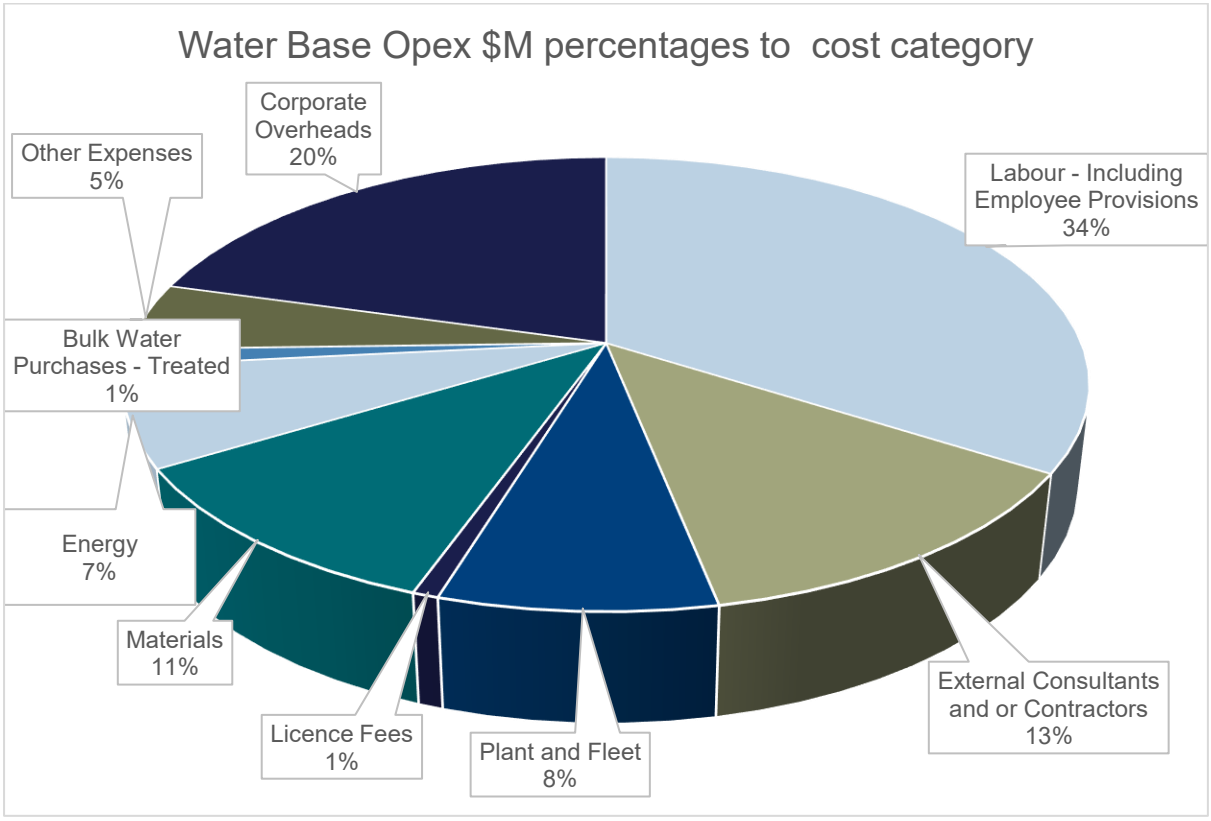


Figure 10: Water base OPEX by cost category

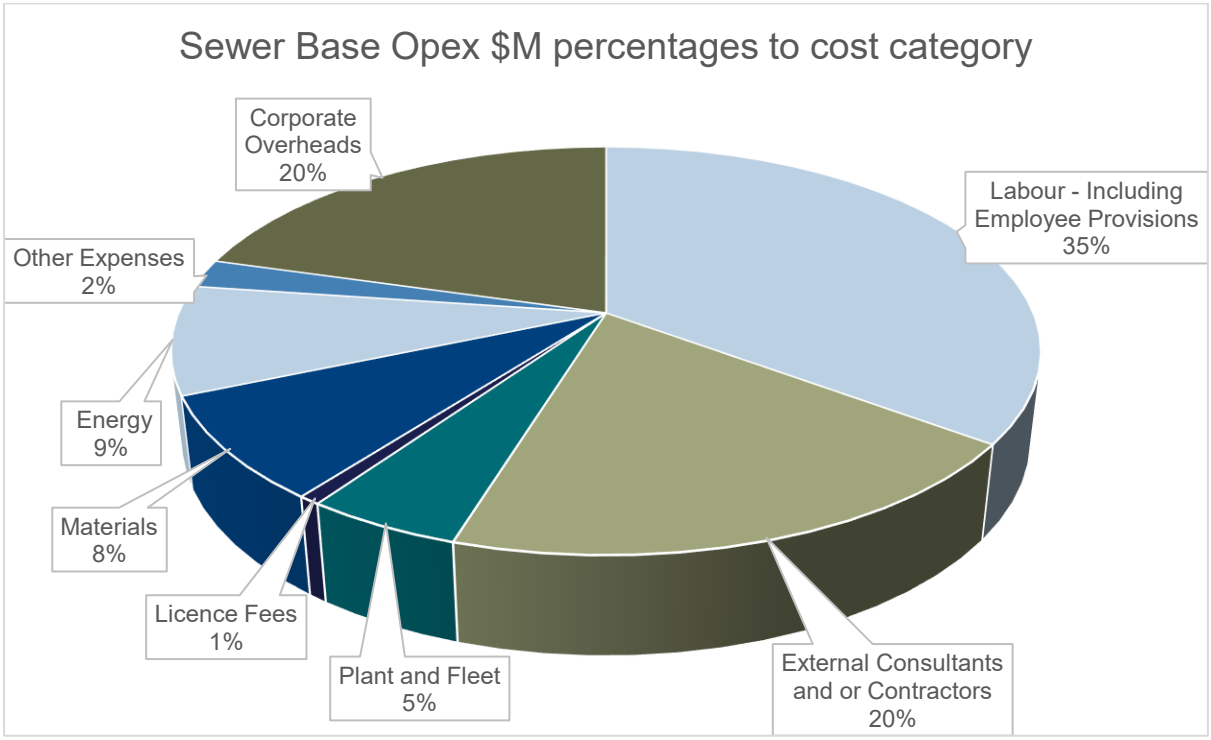


Figure 11: Sewer base OPEX by cost category

Abbreviations

CAPEX	Capital Expenditure
FTE	Full Time Employees
ISO	International Organisation for Standardisation
MWTP	Mardi Water Treatment Plant
NPR	National Performance Reporting
OPEX	Operational Expenditure
SCADA	Supervisory Control and Data Acquisition
SPS	Sewer Pump Stations
STP	Sewage Treatment Plants
WPS	Water Pump Station
WSAMIP	Water and Sewer Asset Management Improvement Program

References

IPART Water regulation Handbook July 2023

Appendix A

FTE 416 with assumed vacancies of 34.7 (vacancy rate 8.4%). Forecast FTE 381.3

Unit	Sum of Budgeted FTE	Sum of Opex FTE	Sum of Capex FTE	Assumed Vacancy Rates %	Total FTE	Opex FTE	Capex FTE	Total FTE	Opex FTE	Capex FTE
					Adjusted FTE			Assumed Vacancies		
Assets and Projects	**85.6**	**47.7**	**38**		**80.2**	45.2	35	**5.4**	2.5	2.9
Asset Delivery	**41**	7.3	33.7	8%	**37.7**	6.7	31	**3.3**	0.6	2.7
Assets and Planning	**41.6**	37.4	4.3	5%	**39.5**	35.5	4	**2.1**	1.9	0.2
Assets and Projects▪	**3**	3	0	0%	**3**	3	0	**0**	0	0
Headworks and Treatment	**89.6**	**88.2**	**1.4**		**83.4**	82.1	1.3	**6.2**	6.1	0.1
Compliance Water Systems	**23**	23	0	5%	**21.9**	21.9	0	**1.2**	1.2	0
Headworks and Treatment▪	**3**	3	0	0%	**3**	3	0	**0**	0	0
Treatment Plants and Catchments	**63.6**	62.2	1.4	8%	**58.5**	57.2	1.3	**5.1**	5	0.1
Network Operations and Maintenance	**208.2**	**200.6**	**7.6**		**187.5**	180.6	6.8	**20.7**	20	0.8
Maintenance Services	**82.6**	77.4	5.2	10%	**74.3**	69.7	4.7	**8.3**	7.7	0.5
Network Maintenance	**77**	75.8	1.2	10%	**69.3**	68.2	1.1	**7.7**	7.6	0.1
Network Operations and Maintenance▪	**4**	4	0	8%	**3.7**	3.7	0	**0.3**	0.3	0
Systems Operations	**44.6**	43.4	1.2	10%	**40.1**	39.1	1.1	**4.5**	4.3	0.1
Water and Sewer▪	**2.6**	**2.6**	**0**		**2.6**	2.6	0	**0**	0	0
Water and Sewer▪	**2.6**	2.6	0	0%	**2.6**	2.6	0	**0**	0	0

Unit	Sum of Budgeted FTE	Sum of Opex FTE	Sum of Capex FTE	Assumed Vacancy Rates %	Total FTE	Opex FTE	Capex FTE	Total FTE	Opex FTE	Capex FTE
Business Strategy and Performance	**30**	**30**	**0**		**27.6**	27.6	0	**2.4**	2.4	0
Business Strategy and Performance▪	**3**	3	0	8%	**2.8**	2.8	0	**0.2**	0.2	0
Community Delivery	**13**	13	0	8%	**12**	12	0	**1**	1	0
Performance and Risk	**14**	14	0	8%	**12.9**	12.9	0	**1.1**	1.1	0
Grand Total	**416**	**369.1**	**46.9**		**381.3**	**338.1**	**43.2**	**34.7**	**31**	**3.8**

Appendix B

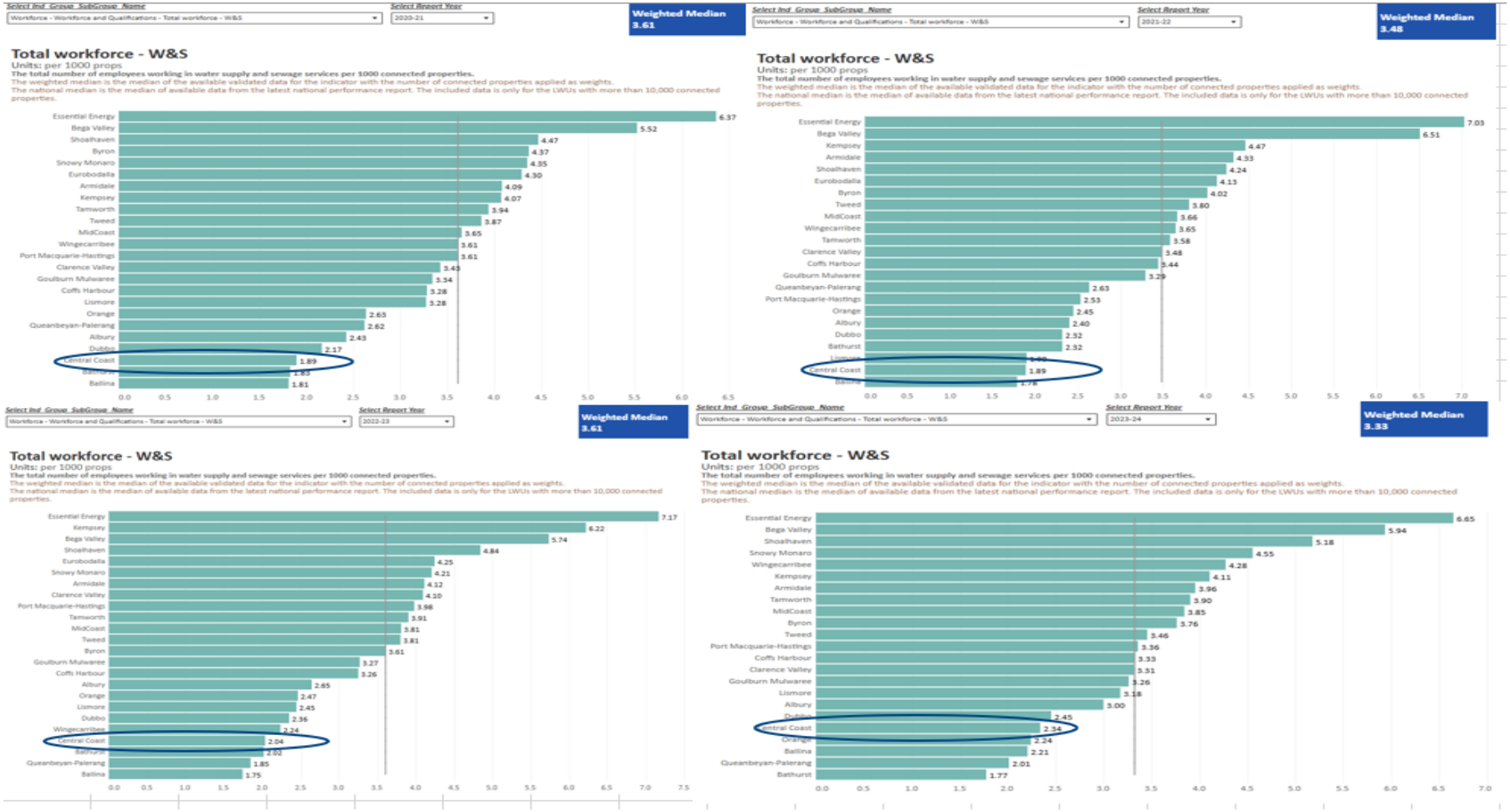


Figure 12: Water and Sewer workforce comparisons per 1000 properties 2020-2024

Central Coast Council | Water and Sewer

Technical Paper 5

Central Coast Council
2 Hely Street / PO Box 20 Wyong NSW 2259
P 02 4306 7900
W centralcoast.nsw.gov.au
ABN 73 149 644 001

September 2025