

Review of Central Coast Council water  
prices – Funding stormwater services

## Draft Information Paper

March 2022

/ Water »



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## **Tribunal Members**

The Tribunal members for this review are:

Carmel Donnelly, Chair  
Deborah Cope  
Sandra Gamble

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## **Invitation for submissions**

IPART invites comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

### **Submissions are due by Thursday, 14 April 2022**

We prefer to receive them electronically via our [online submission form](#).

You can also send comments by mail to:

2021-22 Central Coast Council water price review  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop, Sydney NSW 1240

If you require assistance to make a submission (for example, if you would like to make a verbal submission) please contact one of the staff members listed above.

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our [website](#) as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may decide not to publish a submission, for example, if we consider it contains offensive or potentially defamatory information. We generally do not publish sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please let us know when you make the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009 (NSW)* or the *Independent Pricing and Regulatory Tribunal Act 1992 (NSW)*, or where otherwise required by law.

If you would like further information on making a submission, IPART's [submission policy](#) is available on our website.

## **The Independent Pricing and Regulatory Tribunal (IPART)**

Further information on IPART can be obtained from [IPART's website](#).

## **Acknowledgment of Country**

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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# Stormwater costs should move to local government rates by 1 July 2026

IPART sets the maximum prices Central Coast Council can charge its customers for the water, wastewater and other services provided by it as a Water Supply Authority.

IPART also sets the maximum percentage by which Central Coast Council may increase its general income each year through the local government rate peg or special variations.

To ensure it is clear which of Central Coast Council's responsibilities IPART is referring to, throughout this report:

- we refer to the Central Council Council's functions as a Water Supply Authority under the *Water Management Act 2000* as '**CCC Water**'
- we refer to the Central Coast Council's local government functions under the *Local Government Act 1993* as '**the council**'.

Further information is available in our *Draft Technical Paper – Regulatory setting*.

We are currently reviewing CCC Water's prices for its water-related services and have made draft decisions on the prices to apply for the 4 years from 1 July 2022 to 30 June 2026.<sup>a</sup> Our review only considers prices and costs related to CCC Water. It does not consider those related to the council's general activities for which it charges local government rates, levies and other charges.<sup>b</sup>

We consider our draft prices would allow CCC Water to deliver good quality water and improve services to the community – now and in the future. This draft information paper focuses on funding stormwater services.

Stormwater services collect rainfall runoff from household, business and public land, and then transport, treat and dispose of it into rivers, lakes or the ocean. The council and CCC Water are responsible for planning, constructing and maintaining the infrastructure used to provide these services—such as pipes, channels, storages and treatment facilities.

CCC Water currently gets the income it needs to cover some of these costs of stormwater services through the stormwater charges IPART sets for CCC Water. CCC Water levies a yearly stormwater drainage charge on household and business customers in the declared drainage area within the council's boundaries.<sup>c</sup>

<sup>a</sup> As part of our review we must consider certain matters under the *IPART Act 1992 (NSW)* – detailed information is available in our *Draft Technical Paper – Regulatory setting*.

<sup>b</sup> IPART can also review the council's income from rates, but this is a separate review through the special variation process.

<sup>c</sup> Find out if your household or business is located in an existing stormwater drainage area [here](#) (on page 28).

The council also funds some or all of its stormwater drainage services as a general council function through local government rates which you pay for when you pay your local government rates bill (or rates notice). In this review, CCC Water proposed to shift the stormwater costs funded by local government rates to CCC Water, so that more stormwater costs would be funded by stormwater charges that IPART sets.

For this review we considered 2 issues relating to stormwater services provided by CCC Water:

- First, we considered CCC Water's proposal to shift more stormwater costs from local government rates to CCC Water, so the stormwater drainage charge IPART sets would cover all of CCC Water's and the council's stormwater-related costs.
- Second, we considered whether we should continue to set stormwater drainage prices as a water-related service at all for CCC Water, or whether these services should instead be fully funded through local government rates.

In IPART's view, all of CCC Water's and the council's stormwater services should be funded from local government rates. These services provide benefits to the whole community not just the individuals who pay stormwater bills. Stormwater services allow people to move around after heavy rain, for example, to go to the shops and do errands. Therefore, we think they should be funded through local government rates like other services that benefit the whole community.

In line with this view, we made a draft decision not to accept CCC Water's proposal to transfer \$15.4 million<sup>d</sup> in stormwater costs currently funded through local government rates to CCC Water. This draft decision is also discussed in our *Draft Information Paper – Operating and capital costs*.

We also made a draft decision that this would be the last time CCC Water would collect stormwater drainage service charges. We consulted with the community on the option of setting stormwater prices to \$0 at some point during or after the 2022 determination period. We consider that this would make clear to CCC Water to move all its stormwater costs to be funded by the local government rates fund.

We considered all feedback and have made a draft decision to specify in our Draft Determination that if the 2022 determination period were to be extended beyond 30 June 2026, the stormwater charge would be set at \$0 from 1 July 2026. This means that the council needs to move all stormwater costs from CCC Water to the local government fund before our next pricing review. We intend that this pricing review will be the last time we set stormwater charges.

We have set stormwater prices for the 4 years of the determination period. Our draft decisions on stormwater charges would mean the price would:

- Increase by 17% on 1 July 2022.
- Increase in line with the inflation rate each year until 2025-26.
- Be \$0 on 1 July 2026 if the 2022 Determination is extended. If this happens, customers may be charged a higher local government rate and/or separate stormwater levy.

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<sup>d</sup> In \$2021-22.



While this increase is relatively large, we consider that the price increase is necessary so that CCC Water can maintain and update stormwater drainage works and ensure it meets its service standards.

We want your feedback on our stormwater draft decisions and draft prices.

Our draft decisions are:

-  9. To not accept CCC Water's proposal to transfer \$15.4 million in stormwater costs currently funded through local government rates to CCC Water.
  
-  10. To include in the Draft Determination that the stormwater drainage service charge would be set to \$0 in the event that the 2022 Determination was to apply beyond 30 June 2026.

We welcome your views and are keen to hear what you think about our draft decisions, draft recommendations and the issues we have raised as presented in our Draft Report summary, information papers and technical papers.

A complete list of all our draft decisions and draft recommendations is available in our *Draft Technical Paper – Regulatory setting*.

### Have your say

Your input is critical to our review process.

You can get involved by making a submission, submitting feedback, completing our survey and/or attending a public hearing.

We are seeking feedback by **14 April 2022** on our draft decisions and the issues we have identified.

[Submit feedback »](#)

[Complete survey »](#)

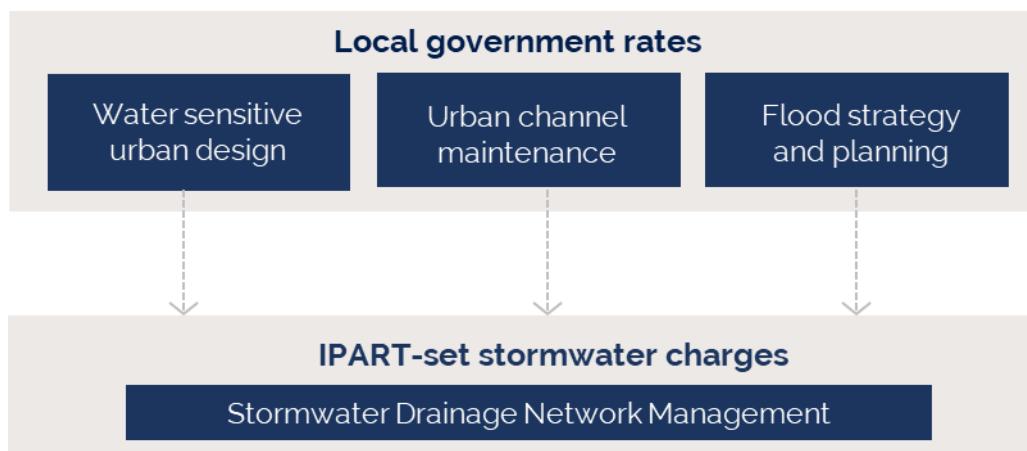
[Register for public hearing »](#)

## CCC Water proposed to fund more stormwater activities

In its pricing submission, CCC Water proposed changes to the stormwater-related activities it funds. IPART currently sets prices for stormwater services to cover the costs of most stormwater activities including stormwater drainage network management activities, such as asset planning, capital works and maintenance.

The costs of other stormwater activities are funded by local government rates. These are environmental management activities, including water sensitive urban design maintenance and urban channel maintenance, and flood strategy and planning. CCC Water proposed to transfer these costs from local government rates to CCC Water, so the stormwater drainage service charge that IPART sets would cover all stormwater-related costs.

**Figure 1 CCC Water's proposed transfer of costs from local government fund to CCC Water**



Note: These costs reflect the transfer of funds and the increase in funds for these stormwater service categories.  
Source: Frontier Economics & Mott McDonald, Central Coast Council Expenditure Review – Draft Report, February 2022.

CCC Water also proposed to increase its spending on:

- stormwater infrastructure inspections, cleaning and repair
- reducing reactive maintenance and preventing risks of infrastructure failure
- updating stormwater drainage works
- improving stormwater quality management to maintain the health of local water ways
- flood risk management including managing creeks to prevent flooding
- ensuring it meets dam safety standards.<sup>1</sup>

Under CCC Water's proposal, the CCC Water stormwater drainage service charge would increase substantially by 69% on 1 July 2022. CCC Water proposed to recover increased spending and the costs it proposed to transfer from local government rates, through the stormwater charges IPART sets for CCC Water.

## We consulted on how to fund stormwater drainage

We sought community views on this issue through feedback on CCC Water's proposal, our Issues Paper, Information Paper on Stormwater Drainage and stormwater survey.

### Stormwater services should be funded by local government rates

How stormwater drainage services should be funded has been an important issue for previous reviews as well as the current review. We sought community views on this issue through feedback on our [Information Paper on Stormwater Drainage](#) and [stormwater survey](#).

After considering CCC Water's proposal and community feedback, we consider all stormwater drainage costs should be funded through the council's local government rates not through the stormwater charges we set for CCC Water. In our view, this is appropriate because stormwater services provide benefits to the whole community not just to the individuals who pay stormwater bills. Stormwater services help people move around after heavy rain, for example, to go to the shops and do errands. Therefore, they should be funded through local government rates like other services that benefit the whole community - such as maintaining public parks and sportsgrounds and building roads and bridges.

In our last review of CCC Water's stormwater prices in 2019, we said there was a strong case for stormwater charges to be funded through the council's local government rates. Although we decided to set stormwater charges for the 2019 Determination, we indicated that CCC Water should consider transferring all stormwater-related costs to the local government rates fund. We also indicated we would reconsider this issue in our next price review. However, in this review, CCC Water has proposed it fund more stormwater costs that are currently funded by local government rates.

### Feedback showed support for funding stormwater through local government rates

We consulted with the community on how stormwater services should be funded, through the charges IPART sets for CCC Water or through local government rates income. We also consulted on the option of setting stormwater prices to \$0 at some point during or after the 2022 determination period. We considered that this would make clear to CCC Water it should move all its stormwater costs to be funded by the local government rates fund.

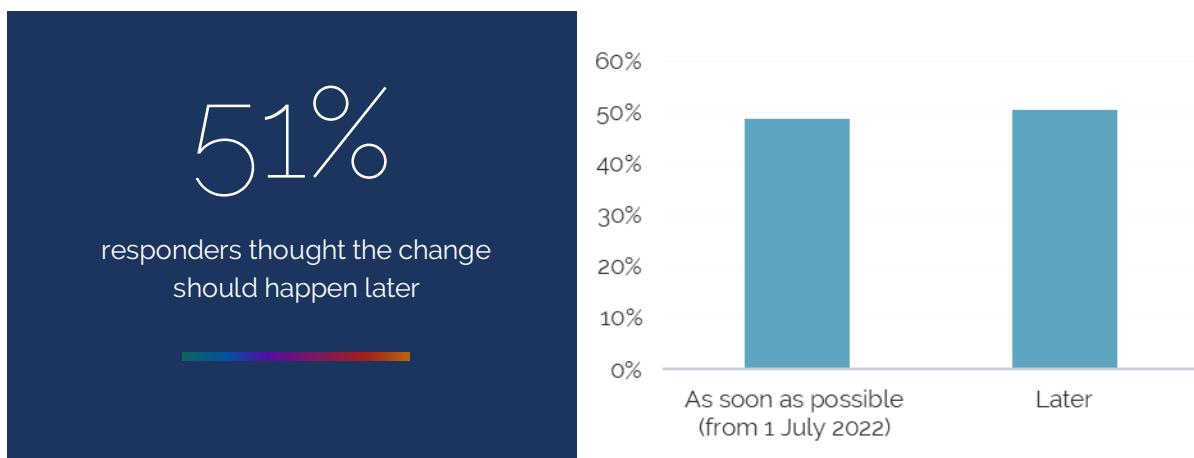
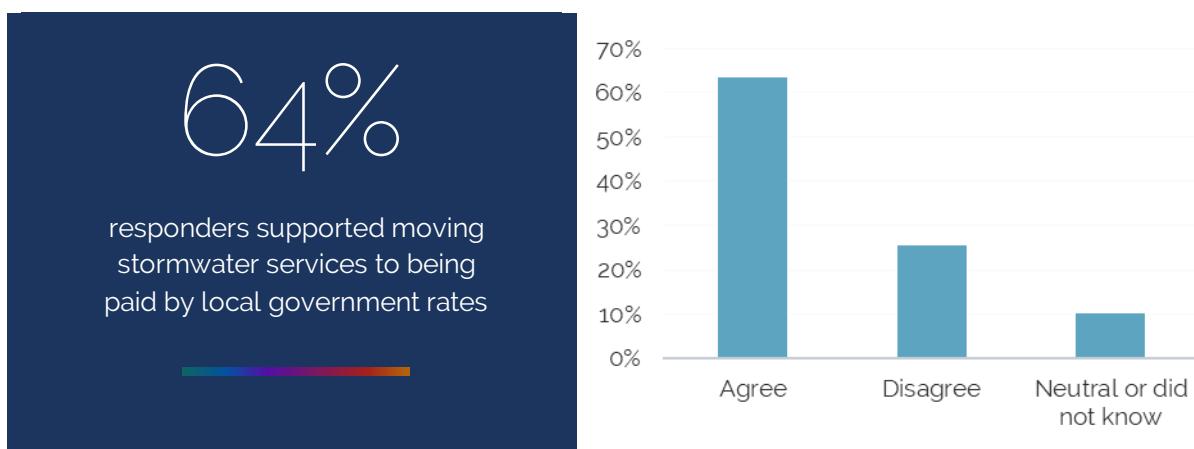
Most of the responders to our stormwater survey agreed that the costs of stormwater services should be funded by local government rates. Some responders:

- considered stormwater services to be a community service rather than a water supply service
- thought that this would avoid potentially paying for stormwater services twice
- were concerned about the transparency of costs and prices, that is, if the money would really be spent on delivering stormwater services
- were also concerned about CCC Water's performance and current service levels.

The Public Interest Advocacy Centre's (PIAC's) submission to our Issues Paper also supported funding stormwater services from local government rates. PIAC considers it is more effective to have a single funding mechanism to deliver all aspects of stormwater services.<sup>2</sup>

Community feedback on stormwater services generally indicated that for many households, stormwater services are perceived to be inadequate or non-existent. Therefore, they considered the proposed increase was unjustified, too high and potentially unaffordable.

Should all stormwater services be funded by local government rates, we found that about half of survey responders preferred the change to happen as soon as possible while the other half preferred the change to happen later.



## The council wants to delay funding stormwater through local government rates

In its [submission](#) to our [Information Paper on stormwater drainage](#), CCC Water agreed that stormwater services are best funded through local governments rates. It recognised that funding stormwater services through local government rates would allow the council to more efficiently manage its road and drainage functions and simplify administration and reporting. However, it did not support setting stormwater prices to \$0 on 1 July 2024, in 2 years' time, as we proposed in the Information Paper on stormwater drainage.

CCC Water argued that if IPART set stormwater charges to \$0 during the 2022 determination period, it would leave CCC Water unable to cover its stormwater costs as well as compromise its financial position. This is because not all stormwater services are currently included in local government rates. If stormwater charges were set to \$0, the council would likely require an increase in local government rates to maintain stormwater service levels. CCC Water also argued that the council would not have enough time to consult with its ratepayers and develop a new system for funding stormwater services through local government rates if prices were set to \$0 in the second year of the determination.<sup>3</sup>

In November 2021, the council passed a resolution to demonstrate its commitment to fund all stormwater services through local government rates from the next determination period, which the council proposed commence on 1 July 2026.<sup>4</sup> By this time, the council intends to transfer the stormwater drainage charge (that IPART currently sets for CCC Water) to a stormwater drainage special rate variation or equivalent under the *Local Government Act*. The stormwater drainage charge would be removed from CCC Water's stormwater customers' water bills and added to the council's ratepayers' local government rates notices.

It is likely that the council would need to consider and consult on options for funding its stormwater services. For example, this may include whether the council needs to apply to IPART for a special variation to its local government rates revenue to ensure that it recovers its stormwater costs and maintains services. This process would require community consultation on funding stormwater services, but this could also be carried out alongside consultation on CCC Water's water and wastewater prices for its next pricing submission.

## Our draft decisions signal local government rates should fund stormwater

To help us make our draft decisions on stormwater prices, we considered CCC Water's proposal, as well as community views on stormwater prices and services, and the findings of our expenditure review on stormwater costs. The following sections explain our draft findings and decisions.

### We decided not to include \$15.4 million of transferred costs in stormwater prices

In line with our view on funding stormwater services, we made a draft decision not to accept CCC Water's proposal to transfer \$15.4 million in additional stormwater costs from the local government rates fund to CCC Water. This means our draft prices would not allow CCC Water to recover these additional costs so customers would not pay for these costs.

The findings from our consultant's expenditure review showed that<sup>5</sup>:

- Without the additional stormwater costs CCC Water proposed, stormwater spending would be similar to CCC Water's actual spending in the 2019 determination period. However, CCC Water spent more than the costs we used to set prices during the 2019 determination period.<sup>e</sup>
- If the additional costs were to be transferred to CCC Water, a reasonable level of costs would be between 3% and 16% lower than what CCC Water has proposed for the additional services (water sensitive urban design, urban channel maintenance and, flood strategy and planning).

### Our draft prices would increase stormwater bills by 17%

We have reviewed the efficient costs for stormwater and set yearly stormwater prices based on these. Under our draft decisions, our draft prices would increase yearly stormwater bills by 17% on 1 July 2022, from \$108 to \$127 for a typical household. This would be \$56 lower than the \$183 bill CCC Water proposed. CCC Water proposed a 69% increase in stormwater prices on 1 July 2022.

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<sup>e</sup> The 17% increase in stormwater prices reflects an increase in the costs for the 2022 Determination compared with those used to set prices for the 2019 Determination. According to our expenditure review, over the 2019 determination period, CCC Water has forecast spending \$5.5 million (around 21.3%) more on stormwater costs than what we used to set prices.

As set out in our *Draft Information Paper - Draft prices and bill impacts*, our draft decision is to set stormwater charges so that the increase is applied in one go on 1 July 2022. Prices would then increase in each year of the 2022 determination period after that by inflation only. We opted not to set stormwater prices to rise gradually, as this would lead to prices being the highest in the last year of the determination. This would allow CCC Water to earn more than it needs in the final year to compensate for earning less than it needed in the earlier years of the determination. We consider this would be out of step with our intention to make clear to the council that we do not intend to set stormwater charges for CCC Water in the next determination.

**Table 1 Our draft prices increase stormwater drainage yearly charges by 17%**

<b>Type of customer</b>	<b>Current</b>	<b>CCC Water proposed</b>	<b>% change</b>	<b>Draft prices</b>	<b>% change</b>
	<b>\$2021-22</b>	<b>\$2022-23</b>		<b>\$2022-23</b>	
<b>House</b>	108	183	69%	127	17%
<b>Apartment</b>	81	137	69%	95	17%
<b>Farmland</b>	108	183	69%	127	17%
<b>Vacant land</b>	81	137	69%	95	17%
<b>Businesses</b>					
• Small/low impact	108	183	69%	127	17%
• Medium	189	320	69%	222	17%
• Large	891	1,509	69%	1,045	17%
• Very large	2,700	4,574	69%	3,168	17%

Source: IPART analysis.

While this price increase is large, this is needed to reflect the costs of necessary work to maintain and update stormwater drainage works and ensure CCC Water meets its service standards.

Based on our expenditure review, the price increase also reflects the amount of stormwater costs that a reasonably efficient water supply business would have.<sup>f</sup>

We are also aware that while pensioner concessions are provided for water and wastewater services, they are not provided for stormwater services. However, pensioner concessions are provided for in local government rates. If stormwater services were funded by the local government fund, pensioners may pay less for stormwater through concessions on their local government rates bill. We also intend to recommend that the NSW government reviews pensioner concessions as set out in our *Draft Information Paper – Draft prices and bill impacts*.

<sup>f</sup> Our expenditure review indicated that in general, CCC Water's actual spending has not been at a sustainable level. The consultants have recommended costs based on benchmarking Australian water businesses to ensure customers only pay for the efficient costs that reflect what a water business' costs should be.

## We have set stormwater prices to \$0 should the determination apply after 1 July 2026

We made a draft decision to include a clause in our Draft Determination that says, in the event the 2022 Determination applies beyond 30 June 2026, CCC Water's stormwater drainage charge would be set at \$0 from 1 July 2026. This is intended to make clear to CCC Water that it should move all its stormwater costs to the local government rates fund before the end of the 2022 determination period. We also intend that this current pricing review will be the last time we set stormwater charges.

We consider this approach reasonable because it would:

- Allow CCC Water to meet its stormwater costs and avoid under-recovering its costs which could affect the delivery of stormwater services during the determination period.
- Allow the council time to develop a system to fund stormwater services through local government rates (e.g. through a new rating system) and if needed, to prepare a special variation application to IPART for any increase to local government rates revenue as a result or introduce a stormwater levy.
- Give the council and CCC Water enough time to consult with its customers and the opportunity to consult at one time on both funding for stormwater, and water and wastewater prices for its next pricing submission. This could help to avoid community consultation fatigue and reduce the risk of customers being less likely to engage.

If the 2022 Determination continues to operate beyond 30 June 2026, stormwater charges would be set to \$0, and customers would pay a \$0 stormwater bill to CCC Water.

On balance, we consider this would lead to a better outcome for both the community and the council. If CCC Water proposes that IPART sets stormwater charges in the next determination period, it must justify why prices should not be \$0. We recommend that CCC Water take steps to transfer its stormwater costs to local government rates to prevent underfunded stormwater services.

Our draft decision to continue to set stormwater charges under the 2022 Determination until 30 June 2026 considers the need for the council to consider its options for funding stormwater services including the possibility of applying for a special variation or charging a stormwater levy, and the importance of allowing enough time for community consultation. We also considered the potential impacts on service levels if the council could not meet its stormwater costs.

## Local government rates may increase if stormwater prices are set to \$0

Should CCC Water transfer all stormwater costs to the council, the council would be responsible for determining how they would charge for stormwater and the amount it would charge. However, IPART does have a role in determining the rate peg and special variations which apply to the council's local government rates general income as a whole.

Unlike the current arrangement where only customers living in a declared drainage area pay CCC Water stormwater charges, if stormwater costs are funded through local government rates, it is likely that all ratepayers would pay and contribute to stormwater services. So, the amount that a customer pays towards stormwater drainage may be less than what a customer would otherwise pay as a yearly stormwater drainage charge set by IPART. It may also mean that some ratepayers are contributing to stormwater costs for the first time. As mentioned, pensioner concessions are applied to local government rates but not to the stormwater drainage charge set by IPART.

The impact of this proposed change would affect ratepayers differently depending on a number of factors, including how the council decides to collect the additional revenue from its ratepayers. In general, how your rates change would also be affected by how much your land is worth as rates are typically linked to unimproved land value. This would also affect the rural community.

For the rural community, while customers would also not pay a stormwater bill as part of their water services bill (which customers expressed concerns about), they are still likely to pay for stormwater services through their local government rates. They would contribute to the stormwater services that are provided for the community that they would still benefit from. However, it is a matter for the council to decide who pays for stormwater services.

It is important for customers to understand that if the 2022 Determination is extended and the stormwater charges IPART sets for CCC Water are set to \$0, customers should expect to potentially pay a higher local government rate and/or a separate stormwater levy. As this is decided by the council, IPART is not yet able to provide information on the amount that customers would pay.

This would also occur if the council were to transfer all costs from CCC Water to the local government rates fund. Customers should expect to potentially pay a higher local government rate/and or a separate stormwater levy. Table 2 presents a potential timeline for stormwater pricing under our draft decisions.



If the stormwater charges IPART sets are \$0, customers should expect to potentially pay a higher local government rate or a separate stormwater levy.

Table 2 Potential timeline for stormwater pricing under our draft decisions

<b>Year</b>	<b>Our draft decision option</b>
<b>2022-23</b>	<ul style="list-style-type: none"> <li>• New stormwater prices apply (from 1 July 2022 to 30 June 2026)</li> </ul>
<b>2023-24</b>	<ul style="list-style-type: none"> <li>• Prices to continue</li> </ul>
<b>2024-25</b>	<ul style="list-style-type: none"> <li>• Prices to continue</li> <li>• Potential consultation on water and wastewater prices and consultation on stormwater funding options (early 2025)</li> </ul>
<b>2025-26</b>	<ul style="list-style-type: none"> <li>• Prices to continue</li> <li>• CCC Water's pricing proposal to IPART due (mid 2025)</li> <li>• SV applications to IPART due (early 2026)</li> </ul>
<b>2026-27</b>	<ul style="list-style-type: none"> <li>• New water price determination or extended 2022 Determination with \$0 stormwater prices (potential higher local government rates or special stormwater levy) (from 1 July 2026)</li> </ul>

We are keen to know what you think about our draft decisions on funding stormwater services.

<sup>1</sup> CCC Water, pricing proposal to IPART, September 2021, pp 17-18 and CCC Water, pricing proposal to IPART – Technical Paper 5 Operating Expenditure, September 2021, pp 60 & 61.

<sup>2</sup> Public Interest Advocacy Centre (PIAC), submission to IPART's Issues Paper for 2021-22 CCC Water price review, 2 November 2021, pp 6-7.

<sup>3</sup> CCC Water, submission to IPART's Information Paper on Stormwater Drainage, 15 November 2021

<sup>4</sup> CCC Water, submission to IPART's Information Paper on Stormwater Drainage, 15 November 2021.

<sup>5</sup> Frontier Economics & Mott MacDonald, *CCC Water – Expenditure Review – Draft Report for IPART*, February 2022, p 179-180.