



Review of Central Coast Council water prices – Improving performance

Draft Information Paper

March 2022

Water >>



Tribunal Members

The Tribunal members for this review are:

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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 We generally do not publish sensitive information.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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Promoting better performance and more accountability

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.^a 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.^b

We consider our draft water 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 improving performance.

In our Issues Paper for this review we said we would look for ways CCC Water can improve its performance, so it will provide the community with good quality services and value for money. We consider CCC Water's performance in recent years in delivering water, wastewater and stormwater services has not met the community's expectations, because:

- CCC Water has not met some performance measures (which we refer to as output measures) over the past 3 years¹
- based on advice we received from independent consultants we found that some of CCC Water's current systems and processes need improvement²

^a 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](#).

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

- during consultation, some customers expressed concerns around poor drinking water quality and wastewater overflows.

Based on these findings, we expect CCC Water to substantially improve its performance and to be more accountable for its spending. To support this, we have made a draft recommendation that CCC Water regularly reports on its performance and publishes this information on its website to increase transparency for the community. We expect CCC Water to consult with its customers to develop a set of performance measures that reflect customer preferences. We also intend to recommend that the Minister asks IPART to assess CCC Water's performance in 2 years, including its progress in implementing changes aimed at improving its performance. This investigation will benefit from the findings of other inquiries and reviews into the council that are currently underway.^c

Our draft recommendations are:

- 3 Commencing at the end of 2022-23, CCC Water should prepare and publish an annual performance report by 31 October 2023, setting out its performance against measures that reflect the community's preferences.
- 4 That the Minister asks IPART to investigate and report publicly on CCC Water's:
 - performance as a Water Supply Authority
 - progress implementing management and governance improvements.

We recommend that this investigation commence in 2024.

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 included in our [Draft Technical Paper – Regulatory setting](#).

^c For example, our [Draft Technical Paper – Regulatory setting](#) explains that an independent Public Inquiry into the council and its financial management is underway, and the council has appointed Kellogg Brown and Root to review the current operating model of the Central Coast Council Water Authority.

 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 »](#)

We consider CCC Water needs to improve its performance

For this review we have assessed CCC Water's performance over the last 3 years (the 2019 determination period) and found that in some areas it is not delivering the services we expect. For example, we:

- asked independent consultants, Frontier Economics and Mott MacDonald (Frontier) to compare CCC Water's performance against a set of output measures that were set in the last review and found that it has not met some of these measures
- asked Frontier to review CCC Water's strategic plans and asset management systems. Frontier found that although improvements are being made, CCC Water's plans and systems do not yet reflect good industry practice
- ran a community survey to find out what CCC Water's customers think of the services they are receiving. Around 40% of customers told us they are not satisfied with the quality of water services they are receiving³
- considered feedback in submissions to our Issues Paper, where customers expressed concern that CCC Water is not spending money in areas where it is most needed.⁴

For these reasons, we consider that there is considerable scope for CCC Water to improve its performance and accountability. The sections below explain our findings in more detail.

CCC Water has not met targets for some output measures

Currently we monitor CCC Water's performance by requiring it to report against output measures that cover its water, wastewater and stormwater services. Output measures inform us and the community of how the business is tracking against service measures set for each determination period. CCC Water's performance against these measures is usually reported to and considered by IPART at each price review (i.e. around every four years). Each output measure includes a target that the business aims to meet.

As part of the current pricing review, CCC Water reported that while it had met or exceeded some output measure targets, there were several targets it is not currently meeting:

- the number of water quality complaints received
- the frequency of unplanned water supply interruptions
- wastewater overflows reported to the regulator
- wastewater odour complaints
- non-compliance with Environment Protection Licences, largely related to annual pollutant load from wastewater treatment plants.⁵

We asked Frontier to assess CCC Water's performance against output measures over the 2019 determination period. Frontier's report which outlines its detailed analysis of CCC Water's performance against its output measures is available on our website. We agree with the findings made by Frontier. The sections below summarise our key findings.

CCC Water has not met water quality complaints targets over the last 3 years

Over the last 3 years CCC Water has consistently not met its target for water quality complaints (which relate to the colour, taste and odour of water). CCC Water also did not meet its targets for frequency of unplanned interruptions in 2019-20 (see Table 1).^d It appears that poor maintenance practices, including a focus on short-term cost reductions, has been a key driver for poor water quality performance and unplanned water supply interruptions.⁶

For the 2022 Determination, CCC Water has proposed large increases to its operating and capital cost allowances to address these water service quality issues. While we do not intend to approve all the costs that CCC Water proposed, we have made a draft decision to substantially increase CCC Water's cost allowances to enable CCC Water to make improvements in this area (see our *Draft Information Paper - Operating and capital costs* for more information).

Table 1 CCC Water's performance against water output measures

Output measure		2019-20	2020-21	2021-22
Water quality complaints per 1000 properties	Target	9	8	8
	Actual	11.7	9	9
Average frequency of unplanned interruptions per 1000 properties	Target	115	115	115
	Actual	127.9	114.2	115
Water main breaks per 100km of main	Target	16	16	16
	Actual	12	10.2	12
Compliance with Australian Drinking Water Guidelines – microbial values (%)	Target	100	100	100
	Actual	100	100	100
Compliance with Australian Drinking Water Guidelines – chemical values (%)	Target	100	100	100
	Actual	100	99.7	100

Legend: ■ green highlighted cells indicate target met, ■ red highlighted cells indicate target not met.
Source: Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, p 139.

^d CCC Water notes that three instances of elevated metal concentration were due to sample contamination upon collection which caused it to not meet its output measure for Australian Drinking Water Guidelines – chemical guidelines in 2020-21. See CCC Water Pricing proposal to IPART, September 2021, p 44.

CCC Water met 2 of its 5 targets for wastewater performance

Over the last 3 years CCC Water has consistently not met its target for wastewater overflows, which can cause significant damage to the environment and pose public health risks.^e CCC Water also did not meet its targets for wastewater odour and compliance with Environment Protection Licence (EPL) concentration limits in 2 out of 3 years (see Table 2).^f This relatively poor performance against wastewater odour targets relates to poor management and maintenance of CCC Water's sewage treatment plants.⁷ As discussed above, we have made a draft decision to substantially increase CCC Water's operating and capital cost allowances, but by less than CCC Water proposed. We expect a higher cost allowance will enable CCC Water to improve its maintenance practices and management of its sewage treatment plants.

Table 2 CCC Water's performance against wastewater output measures

Output measure		2019-20	2020-21	2021-22
Wastewater overflows per 100km of main	Target	32	30	28
	Actual	31	27.5	28
Wastewater overflows reported to the environmental regulator, per 100km of main	Target	1.6	1.5	1.4
	Actual	2.9	2.5	2.5
Wastewater odour complaints per 1000 properties	Target	1.7	1.7	1.5
	Actual	2.2	1.6	1.6
Wastewater main breaks and chokes per 100km of main	Target	35.6	34	32
	Actual	32.8	30.5	32
Compliance with EPL concentration, load limits	Target	Yes	Yes	Yes
	Actual	No	No	TBC

■ green highlighted cells indicate target met, ■ red highlighted cells indicate target not met.

Source: Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, p 142.

CCC Water should continue to develop its strategic plans and asset management systems

We also assessed CCC Water's strategic plans and asset management systems to determine whether they represent good industry practice. We found that CCC Water is in the process of preparing and updating its long-term strategies, asset management frameworks, processes, systems, and decision-making frameworks. Although improvements are being made, we found that CCC Water's systems do not yet reflect best practice, which may lead to:

- investment choices that are not as efficient as they could be
- a lack of clarity about how investments and expenditure have a clear link to customer outcomes.⁸

^e CCC Water must report such incidents to the Environmental Protection Authority (EPA).

^f Pollutant load and concentration limits, and maximum daily volume of treated effluent discharged to the ocean outfalls are specified in the EPL.



Asset management is the process of minimising the long-term cost of delivering services to customers

We recognise that CCC Water is moving towards good industry practices to ensure that customer requirements are factored into CCC Water's planning and systems, and that these requirements are met at reasonable cost. We expect CCC Water to continue to develop its asset management systems. Based on advice provided by Frontier, we have found several areas where we consider CCC Water could continue to move towards best practice, outlined in Box 1.

Box 1 Frontier's recommendations to improve CCC Water's strategic plans and asset management systems

In its assessment of CCC Water's strategic plans and asset management systems, Frontier recommended that CCC Water should:

- clearly demonstrate in its strategic plans how its strategy and long-term objectives meet community objectives and expectations
- report its progress against the Asset Management improvement plans as detailed in the Asset Management Strategy
- develop an endorsed, published customer charter with a set of measurable customer outcomes and reporting
- incorporate risk metrics into a dashboard so that it always has a contemporaneous view of its asset-related risks, especially those from its critical assets
- link the prioritising framework to determining the optimal level of capital expenditure to ensure that only the investments linked to the regulatory drivers and customer outcomes are funded
- adopt a more standardised approach to risk and opportunity estimating and a unit cost database that expands upon the networks costing approach into treatment projects
- at Gateway 1, document the minimum requirements to be met through the different stages and the approval responsibilities to provide greater transparency and guidance. These requirements should then be monitored through the project delivery stages by the CCC Water capital expenditure committee.

Source: Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, p 12.

Some stakeholders are concerned about CCC Water's performance and accountability

Through consultation, some customers told us they have lost trust in CCC Water and are not satisfied with its performance. Community consultation included:

- a survey IPART held in October 2021 with over 1,000 responses. Around 80% of respondents did not feel that CCC Water plans to spend money on what is most needed to improve services.⁹
- 175 submissions to our Issues Paper. Around 75% of submissions indicated dissatisfaction with CCC Water's performance. A number of submissions expressed:
 - opposition to paying for perceived council mismanagement
 - concerns customers would pay more for the same level of poor-quality services
 - desire to see service levels and productivity improve before paying higher prices.¹⁰
- customer feedback collected by Woolcott Research on behalf of CCC Water, which formed part of its pricing proposal. Woolcott Research found that:
 - although customer satisfaction is high for water reliability, around 10% to 23% of customers reported being dissatisfied with water quality.
 - around 20% to 30% of customers reported being affected by wastewater overflows into the community and around 40% reported being concerned about overflows into the environment.¹¹
- a public hearing following the release of our Issues Paper, where poor water quality was discussed. CCC Water outlined that this often occurs where there are dead-end mains that create a build-up of sediment and dirty water. This is particularly a problem in the Davistown-Saratoga area and has led to an increase in complaints.¹²

In making our draft recommendations on improving performance, we considered the community's concerns alongside expert advice we received from Frontier. The sections below discuss our draft recommendations to improve CCC Water's performance and accountability and to address the community's concerns.

Better information to monitor CCC Water's performance

We consider the community needs more frequent information about the quality of services they are receiving and that CCC Water should develop a new set of performance measures that reflect the community's preferences. Currently IPART reviews CCC Water's performance around every 4 years against a set of output measures. We consider more frequent public performance reporting on measures that are important to the community would help to:

- provide assurance to customers that their money is being appropriately spent
- enhance transparency and accountability for CCC Water's performance
- drive CCC Water to improve its performance, communication and customer engagement.

CCC Water should develop and report publicly on a new set of performance measures

Our draft recommendation is that CCC Water should publish a yearly performance report on its website that sets out CCC Water's performance against a new set of performance measures developed through community consultation.

In its assessment of CCC Water's performance against existing output measures, Frontier found that CCC Water has not done a Customer Service Standards survey since 2012,¹³ and that performance outcomes are aligned to current performance measures rather than targets set out by the community. For this reason, Frontier noted that the gap between the service levels experienced by customers and the service levels expected by customers is unclear.¹⁴ To bridge this gap, Frontier recommended CCC Water develop a new set of performance measures that reflect customer preferences and the level of services they expect.

At the public hearing following the release of our Draft Report we will consult with CCC Water customers to help CCC Water develop performance measures that align with the community's preferences and expectations. We expect CCC Water to:

- implement the findings from this consultation process to develop a new set of performance measures
- do further community consultation to inform its performance measures
- put systems in place to publicly report on these performance measures on a yearly basis, starting from the first year of the 2022 determination period (2022-23).

We have provided examples of performance measures that CCC Water could consider reporting on (below in Figure 1). These examples draw on advice we received from Frontier and measures that other water businesses typically report on.⁹ We will consult with stakeholders at the public hearing on these measures and expect CCC Water to continue to consult with its customers to develop a new set of performance measures.

As discussed above, poor water quality appears to be of particular concern in the Davistown-Saratoga area. Frontier recommended that CCC Water start to report on total water quality complaints per 1000 properties received from this area. This would allow IPART and other stakeholders to understand trends in this part of CCC Water's network.¹⁵ We have included this recommended performance measure in Figure 1.

⁹ We drew on performance reporting examples from the Australian Bureau of Meteorology's [Urban national performance report](#) and Essential Services Commission's [Water performance reports](#).

Figure 1 Examples of performance measures for CCC Water to consult on

Performance areas	Performance measures
<p>Customer</p> 	<ul style="list-style-type: none"> Number of connected properties Typical residential bills Total complaints per 1000 properties for both water and wastewater Number of water pressure complaints per 1000 properties Number of customers in payment plans and/or financial hardship assistance
<p>Service reliability</p> 	<ul style="list-style-type: none"> Number of water and wastewater unplanned service interruptions Average duration of water and wastewater interruptions Number of main breaks and chokes per 100 km of mains
<p>Asset and finance</p> 	<ul style="list-style-type: none"> Capital project delivery Income per property Operating cost per property Capital cost per property
<p>Environment and public health</p> 	<ul style="list-style-type: none"> Net greenhouse gas emissions Number of water quality complaints per 1000 properties for all areas and specifically for Davistown and Saratoga region Number of wastewater overflows per 100km of mains Number of wastewater overflows reported to the environmental regulator, per 100km of main Number of wastewater overflows per 100km of main under dry weather conditions Number of stormwater drainage maintenance requests per year Compliance with Australian Drinking Water Guidelines – microbial guideline values in the water supply & chemical guideline values Compliance with EPL concentration, load limits

Source: IPART analysis

We recommend IPART investigates CCC Water's performance and progress in 2 years' time

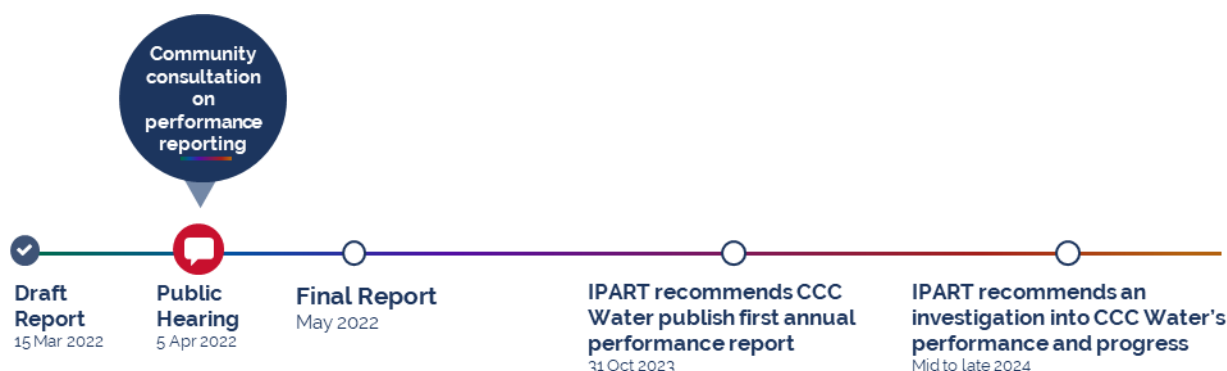
In addition to improved performance reporting, in the longer term, we think more could be done to ensure CCC Water is accountable for its spending and for the quality of services provided to the community. For this reason, we recommend the Minister give IPART a terms of reference to investigate CCC Water's performance and progress. The terms of reference would require CCC Water to provide us with the necessary information to assess and publicly report on:

- CCC Water's performance over the last 2 years
- whether it has reported on the information that is important to the community
- whether it has made the necessary improvements that it has committed to.

We recommend that this investigation commence in 2024.

We would also look at the progress CCC Water had made in putting in place the governance, processes and systems needed to promote better services in the long-run and whether more changes are needed. We think there is also merit in the council further reviewing the overall governance and operating model of CCC Water. CCC Water is a relatively large utility serving about 140,000 customers and supplying about 31,000 megalitres of water (ML) each year.^h Other large Australian water utilities, such as Sydney Water and Hunter Water are typically run independently and overseen by a board of directors. Changes to the governance, business model and structure of CCC Water may provide longer term benefits for customers' service levels, efficiency and sophistication.

The timeline below presents our draft recommendations to improve CCC Water's performance and accountability, and when we propose these recommendations would take effect.



^h By comparison Sydney Water services about 2.1 million customers and supplies about 524 000 ML per year and Hunter Water services about 280,000 customers and supplies 64,000 ML per year. The next largest water utility in NSW is Shoalhaven which has about 50,000 customers and supplies about 15,000 ML per year.

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- ¹ Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, pp 139-142.
 - ² Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, p 11.
 - ³ IPART, [Information Paper response to our survey on Central Coast Council water prices](#), December 2021, p 1.
 - ⁴ IPART, [Information Paper response to our survey on Central Coast Council water prices](#), December 2021, p 3.
 - ⁵ Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, pp 139-146.
 - ⁶ Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, p 140.
 - ⁷ Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, p 144.
 - ⁸ Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, p 46.
 - ⁹ IPART, [Information Paper response to our survey on Central Coast Council water prices](#), December 2021, p 3.
 - ¹⁰ IPART, [Submissions and survey results - 2022 Central Coast Council water price review](#), accessed 8 March 2022.
 - ¹¹ CCC Water, [Technical Paper 1 - Engaging with our Customers and Community](#) - Appendix A: Community Feedback for IPART Submission - research report prepared by Woolcott Research for Central Coast Council, p 9.
 - ¹² IPART, Review of Central Coast Council's water prices, Public hearing transcript – Session A, 26 October 2021, p 16.
 - ¹³ Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, p 42.
 - ¹⁴ Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, p 43.
 - ¹⁵ Frontier Economics & Mott MacDonald, Central Coast Council Water Expenditure Review – Draft Report for IPART, February 2022, pp 150-157.