



Review of Central Coast Council water prices – Summary

Draft Report

March 2022

Water >>



Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly, Chair
Deborah Cope
Sandra Gamble

Enquiries regarding this document should be directed to a staff member:

Scott Chapman (02) 9290 8449

Sheridan Rapmund (02) 9290 8430

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 We generally do not publish sensitive information.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.

Contents

IPART has made draft decisions on water prices	1
Tell us what you think about our draft decisions	4
We have heard from the community on CCC Water's pricing proposal	6
Most submissions opposed CCC Water's proposed price increases	6
Survey responses raised concerns about affordability and performance	7
We aim to ensure customers pay no more than needed for safe and reliable water services	9
Our draft decisions would increase typical bills by about 19% on 1 July 2022 and then by about 4% each year	9
Our draft recommendations aim to improve CCC Water's performance and accountability	15
Our draft decisions reflect the costs CCC Water needs to cover	16
Our draft decisions signal local government rates should fund stormwater	18
We are seeking your feedback on our draft decisions	20

IPART has made draft decisions on water prices

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 Coast 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.

The Central Coast community needs safe and reliable water, wastewater and other related services to protect the health and well-being of the community and environment. Through our consultation for this review, customers have told us they are concerned about price increases for these services, and about the performance of CCC Water. The community has raised concerns with us about water quality and stormwater drainage infrastructure in their neighbourhoods and told us they lack trust in CCC Water's ability to deliver services.^c

^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.

^c The council was suspended in October 2020 and an independent Public Inquiry is currently underway into the council's financial management.

In making our draft decisions, we aimed to balance community concerns with the need to ensure CCC Water has enough income both to meet its current obligations and service standards, and to improve its services over time. We recognise that with increases to CCC Water's spending and prices, it is crucial that it is more accountable to the community and is transparent about how it spends this money to improve services. We also recognise that price increases may lead to affordability concerns, and so it is increasingly important for CCC Water to ensure there are good arrangements in place for its customers to receive hardship assistance and for customers to get good value for money.

Last time we reviewed CCC Water's prices in 2019, we did not allow its proposed price increases. This was, in part, because CCC Water had for several years spent less on operating costs than we had previously forecast it would need to spend when we set its prices in the past. It did not provide evidence to justify that it needed more money and therefore higher prices than we determined were necessary to provide its water services efficiently. It was also not clear that service levels were declining.

Now there is new information that indicates CCC Water needs to spend more, and prices need to increase so that it can maintain its infrastructure and improve water services for its customers. This includes information from customers who told us there are now persistent water quality problems in some parts of the water supply system.

Customers consider they have limited ability to influence the water services that are delivered to them and CCC Water is not sufficiently accountable for its performance. To ensure CCC Water is properly accountable for its spending, the community needs better information.

In the short term, we plan to consult with the community to understand and agree on specific areas of performance that customers want CCC Water to report on. We would expect that CCC Water would report on its performance in these areas to the community each year. We consider better reporting would:

- make CCC Water's performance more transparent and make it more accountable to the community
- allow customers to track performance improvements and know what CCC Water is delivering
- drive CCC Water to improve its performance over time.

In the longer-term, we think more could be done to ensure CCC Water is accountable for its spending. For this reason, we intend to recommend the Minister gives us a referral to investigate and report publicly on CCC Water's performance as a Water Supply Authority and progress implementing management and government improvements in 2 years' time.^d This investigation would look at CCC Water's performance between now and in 2 years' time to check whether it has reported on the information that is important to the community and whether it has made the necessary improvements that it has committed to. We would also look at the progress CCC Water has made in putting in place the governance, processes and systems needed to promote better services in the long-term.

^d Detailed information is available in our [Draft Information Paper – Improving performance](#)

We think there is also longer-term 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.^e 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.

Our draft decisions on prices^f would increase typical household bills for water, wastewater and other services, but not by as much as CCC Water proposed. In response to community feedback we also decided not to introduce the entire increase in the first year but to instead introduce an increase to the typical household bill on average of 19% in the first year of the 2022 determination period, and then gradually increase bills by about 4% each year and inflation after that. CCC Water proposed to increase typical bills by 35% from 1 July 2022. Under our draft decision, a typical household water bill would represent around 1.8% of a typical household income in the Central Coast region.

The final prices we set for this review may change if interest rates change between our Draft Report and our Final Report. This is because interest rates affect how much income CCC Water needs to earn through prices.^g A change of 0.5% in interest rates would lead to a change in the average bill for a typical household customer of about 4% or \$58.

Customers have told us that the price and bill increases may lead to affordability issues among the community. To help customers with paying their bills, CCC Water provides assistance such as payment plans, and concessions for pensioners.^h We encourage CCC Water to consider how it can better target this assistance to help customers most in need. We also intend to recommend that the NSW Government reviews pensioner concessions.

To set prices, we examined CCC Water's past and proposed costs, and decided what costs over the next 4 years should be covered to ensure customers pay no more in their prices than is necessary for their water services.ⁱ We also took advice from expert consultants in making that examination. We found that, historically, CCC Water has not spent enough on its Water Supply Authority to ensure good quality services and meet customers' expectations.

^e 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.

^f Detailed information is available in our [Draft Information Paper – Draft prices and bill impacts](#).

^g Detailed information is available in our [Draft Technical Paper – How we set the revenue level](#), in which we discuss the interest rate, also known as the Weighted Average Cost of Capital (WACC), we use to calculate the council's return on its assets.

^h [Central Coast Council rebates and hardship assistance](#), August 2021

ⁱ Detailed information is available in our [Draft Information Paper – Operating and capital costs](#).

On this occasion, we have made draft decisions that CCC Water's yearly operating costs need to be 24% higher than what we allowed in the 2019 determination period so it can spend more on delivery, network operations and asset maintenance to improve its performance over time. Its yearly capital costs need to be 6% higher than what we allowed in the 2019 determination so it can invest in improvements in water quality and wastewater treatment. However, our draft decisions on CCC Water's operating and capital costs are lower than CCC Water proposed, by 9% and 5%, respectively.

Our draft decision is that these price increases are necessary to ensure CCC Water can cover its efficient costs. These are the costs we consider it should incur to provide an acceptable standard of water, wastewater and other services, and to invest in its infrastructure so it can continue providing these services in the long term.

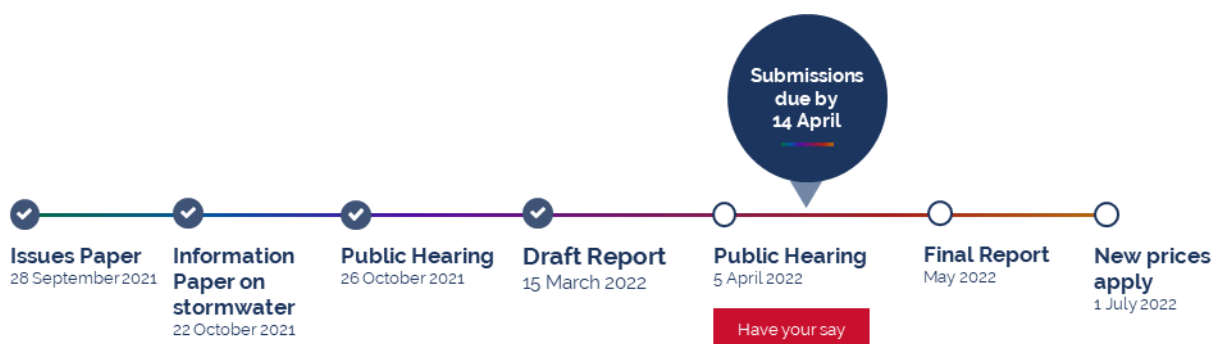
We have made a draft decision that this is the last time that stormwater drainage charges would be collected from CCC Water customers. Our view, supported by our consultation with the Central Coast community, is that these services protect the whole community from flooding, with benefits to the natural environment. Therefore, the costs of providing these services should be funded through local government rates instead.^j In the event our 2022 Determination extends beyond 4 years, CCC Water's stormwater drainage charges would be set at \$0 from 1 July 2026 to make clear that we intend this to be the last time we set these charges. This would give the council time to consult with the community, plan and implement funding stormwater costs via its local government rates income, and potentially apply for any necessary special variations to its local government rates income.

The rest of this Draft Report Summary provides a more detailed overview of the key issues and draft decisions for this review. Our draft decisions and draft recommendations are listed and explained throughout our Draft Report information and technical papers. A complete list of all our draft decisions and draft recommendations is available in our [Draft Technical Paper – Regulatory setting](#). Page 20 of this Draft Report Summary lists the specific issue we seek comments on and explains how you can provide feedback.

Tell us what you think about our draft decisions

We are seeking feedback from the community by 14 April 2022 on our draft decisions, draft recommendations and specific issues we have identified. We will hold an online public hearing on 5 April 2022 which will also provide the community opportunity to provide feedback and comments on our Draft Report.

^j The stormwater drainage service charge we determine only applies to stormwater drainage services provided by Central Coast Council in its capacity as a Water Supply Authority.



In making final decisions and setting prices, we will consider all feedback we receive in response to this Draft Report (including information and technical papers) and at our public hearing.

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 have heard from the community on CCC Water's pricing proposal

During October 2021 we sought community feedback on CCC Water's pricing proposal and our Issues Paper, and on our Information Paper on stormwater drainage services. We also held our first public hearing for the review online. We encouraged customers and the community to make submissions to the review and to complete our Have your say survey and stormwater survey. We received 175 submissions and more than 1,000 survey responses.

Most submissions opposed CCC Water's proposed price increases

Of the 175 submissions we received, most were from individuals who expressed opposition to CCC Water's proposed price increases. They also raised concerns about:

- the affordability of the proposed prices for customers
- CCC Water's level of performance, accountability and transparency
- stormwater costs and how these should be funded.

Customers are concerned about affordability

Customers raised concerns about the impacts of CCC Water's proposed price increases on affordability and their potential to cause financial hardship. Customers spoke of worsening financial circumstances brought about by the COVID-19 pandemic, bushfires and the recent increase in local government rates. Customers were especially concerned about the impacts of price increases on disadvantaged groups such as pensioners and low-income earners. If price increases were needed, most customers wanted them to occur gradually over the determination period, rather than all at once in the first year of the determination period.

Customers are unsatisfied with CCC Water's performance, accountability and transparency

Most of the customers who made submissions considered that CCC Water's previous and current performance is poor. Some customers indicated they are not satisfied with their water services. Service quality and level appears to vary across the Central Coast as indicated by complaints about the lack of services, including lack of stormwater drainage infrastructure and poor water quality in parts of the Central Coast.

Most customers also expressed frustration about the standard of financial management by Central Coast Council, including both its functions as a council and its functions as a Water Supply Authority. Issues relevant to this review included a lack of clarity about whether stormwater services should be provided and paid for by the council as a local government authority or paid for by customers of CCC Water as a Water Supply Authority.

The community raised concerns with us about aspects of CCC Water management, including its overall governance. Community comments indicate there is a broad view that CCC Water's proposed price increases are a result of poor financial management and oversight. There is also evidence suggesting some of the money collected from CCC Water customers for water services may have been used for the council's local government functions.^{k,1}

In addition, customers submitted that they feel disempowered without elected officials. They do not believe CCC Water has kept them informed of the need for greater expenditure, or that the community's input has informed CCC Water's and the council's strategic priorities.

Overall, submissions indicate that customers want CCC Water to be more strongly held to account going forward and want to see better water services, as well as improved transparency to build community trust.

Customers support funding stormwater services through local government rates

Some of those in the community argued that they were not receiving adequate (or indeed any) stormwater services and should not pay the proposed 69% increase in charges. Submissions on stormwater typically focused on a lack of kerb and guttering in residential streets, and water that drains off slowly. Rural customers also argued that they should not pay stormwater charges because of the work they do to manage stormwater.

We also consulted separately on stormwater services and our view is that these services should be funded by local government rates and not through charges that IPART sets for CCC Water as a Water Supply Authority. This would require the council to transfer all stormwater costs to its local government rates fund. Our survey showed that most customers support paying for stormwater through their local government rates. However, the results were split on whether customers wanted this to happen as soon as possible or later.

Survey responses raised concerns about affordability and performance



63% are happy with the council's water service quality

^k Under some circumstances, some revenue raised as a Water Supply Authority may be paid to the council in the form of a modest dividend and applied towards general council expenditure.

51% think the council's water services need improving

84% don't think proposed price increases are needed

80% don't think money will be spent on what's most needed

24% don't think they can afford proposed bill increases

89% preferred prices to increase gradually

74% think Gosford and Wyong customers should pay the same



270

Responses to our stormwater drainage survey

64% agree that stormwater services should be paid from the council's local government rates

51% would prefer the change to stormwater funding through local government rates to happen later rather than as soon as possible

We aim to ensure customers pay no more than needed for safe and reliable water services

In making our draft decisions, we considered the community's concerns about CCC Water's performance and accountability, and the affordability of its proposed prices. We also considered the costs CCC Water needs to cover so that it can provide water, wastewater and other services that meet its customers' expectations, both now and in the long term. In particular, we considered what the costs of a reasonably efficient water business would be. This ensures we do not relax the requirement for CCC Water to be efficient and we do not set prices in a way that rewards inefficiency. We have ensured that all proposed price increases are properly justified with data and analysis, including independent analysis, so that customers pay no more than they need to for safe and reliable water services.

Our draft decisions would increase typical bills by about 19% on 1 July 2022 and then by about 4% each year

Our reviews of CCC Water's costs and performance found that CCC Water has not spent enough on its water services in the past and needs to spend more to meet its customers' expectations, and its regulatory obligations and service standards. Therefore, we have made draft decisions to increase its maximum prices so CCC Water can maintain and improve its water services.

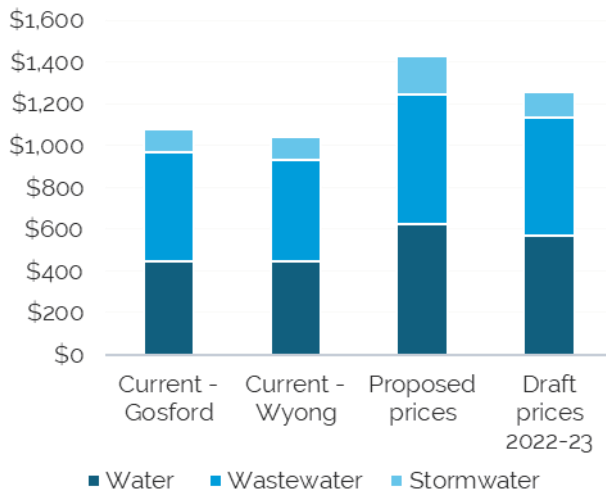
Under our draft decisions, typical household bills would increase, on average, by about 19% (or about \$200) to \$1,258 on 1 July 2022.^l Typical household bills would then increase on average by about 4% (or about \$49) and inflation in each of the following 3 years. These increases would be lower than the 35% (i.e. about \$370) bill increase CCC Water proposed from 1 July 2022.

The increases in prices and bills are mainly driven by the need for CCC Water to spend more on its Water Supply Authority functions, to deliver the services customers expect. This includes spending more for delivery, network operations and asset maintenance so it can deliver good quality water and services to its customers and improve its performance over time.

Customers have told us that the price and bill increases may raise affordability concerns among the community. To help customers with paying their bills, we recommend that CCC Water promotes its assistance programs such as payment plans, and its concessions rebates for pensioners.^m We encourage CCC Water to consider how it can better target its assistance program to better assist customers in need, as well as help customers with water conservation to allow them to manage their water bill. We also intend to recommend that the NSW Government reviews pensioner concessions.

^l A typical household bill is based on a household living in a house, with a water usage of 170 kilolitres (kL) a year.

^m [Central Coast Council rebates and hardship assistance](#), August 2021.



Source: CCC Water pricing proposal 2021 and IPART analysis.

19% ↑

On an average bill for a typical household on 1 July 2022 and by 4% and inflation each year after that

Based on our review of CCC Water's costs, our draft decision is to allow it to earn a higher income so it can recover the efficient costs of delivering and improving water, wastewater and other services and improve its performance over time. In reviewing CCC Water's costs we considered how they compare to those of a reasonably efficient water business.ⁿ

Our draft decisions on CCC Water's maximum prices over the 2022 determination period are shown in Table 1. In setting these prices, we generally maintained the current price structures. However, we aligned the wastewater prices for the former Gosford local government area and former Wyong local government area from 1 July 2022.

We set the water usage price at \$2.27/kilolitre (kL) for the 2022 Determination, (which is 8% higher than the current price) with reference to the long-term cost of supplying water. This helps to ensure water prices enable customers that use less water to save more money and encourages CCC Water to adequately invest in its water supply infrastructure to meet the future needs of customers.

Under our draft decisions, the water service charge would see a larger increase, doubling from 1 July 2022, driven by the necessary increases in operating and capital costs. How this price increase would affect your bill depends on how much water you use. If you use a relatively small amount of water, the fixed water service charge would make up a relatively large proportion of your bill. Higher fixed charges reflect that most of the higher costs CCC Water expects to incur are fixed and do not vary with the amount of water its customers use. Therefore, an increase in this charge has a relatively large impact on your bill.

When setting prices, we have considered how much water CCC Water will sell each year to customers, as well as how many customers are connected to the system. A higher water sales forecast would lead to lower service charges, while a lower water sales forecast would lead to higher service charges.

ⁿ More information is available in our *Draft Information Paper – Operating and capital costs*, our *Draft Technical Paper – How we set the revenue level* and our *Draft Technical Paper – Demand for water services*.

We have set our draft prices based on CCC Water's water demand forecasts which we consider are reasonable. CCC Water forecasts yearly water consumption for the 2022 Determination to be around 5% lower than the forecasts we used to set prices for the 2019 Determination. We have also used CCC Water's forecasts of the growth in the number of connections.

It is important that these forecasts are reasonable because if CCC Water's actual water sales, customer numbers or wastewater discharge volumes differ markedly from forecasts over the determination period, the determined prices would result in CCC Water collecting significantly more or less revenue than it needs.

No forecast is likely to be perfect. So, to reduce the risk that CCC Water will make too much or too little revenue if forecasts turn out be wrong, we have included a mechanism that helps protect both customers and CCC Water. This demand volatility adjustment mechanism (or DVAM) means that if the forecasts we have used to set prices are out by more than 5% over 4 years, prices are adjusted next time we set them in 2026 to compensate customers if sales were higher than forecast, or to compensate CCC Water if they were lower than forecast.^o

In the first 2 years of the 3-year 2019 Determination, CCC Water's water sales were around 6.8% lower than what was forecast. This is likely due to changing community attitudes to water conservation, water restrictions and the COVID-19 pandemic. For the 2022 Determination, we have made a draft decision to adjust CCC Water's income to compensate it for some of its lost sales between 2019-20 and 2020-21.

^o More information is available in our [Draft Technical Paper – Demand for water services](#).

Table 1 Summary of our draft decisions on household prices from 1 July 2022 to 30 June 2026 – without inflation

	Current	Proposed	Draft decision			
	2021-22	2022-23 to 2025-26	2022-23	2023-24	2024-25	2025-26
Water prices						
Usage charge (\$/kL)	2.10	2.27	2.27	2.27	2.27	2.27
Yearly change		8%	8%	0%	0%	0%
Service charge (\$/year)	87.29	239.96	182.37	214.85	253.12	298.21
Yearly change		175%	109%	18%	18%	18%
Wastewater prices (\$/year)						
Houses – Gosford	525	620	563	574	584	595
Yearly change		18%	7%	2%	2%	2%
Houses – Wyong	488	620	563	574	584	595
Yearly change		27%	15%	2%	2%	2%
Apartments – Gosford	486	577	521	532	542	553
Yearly change		19%	7%	2%	2%	2%
Apartments – Wyong	449	577	521	532	542	553
Yearly change		28%	16%	2%	2%	2%
Stormwater charge (\$/year)^a						
Houses/farmland	108.00	182.94	126.70	126.70	126.70	126.70
Yearly change		69%	17%	0%	0%	0%
Apartments	81.00	137.20	95.03	95.03	95.03	95.03
Yearly change		69%	17%	0%	0%	0%

a. For customers in a declared drainage area.

Source: Central Coast Council pricing proposal to IPART, September 2021, pp 87-91 and IPART analysis.

The draft prices we have set would enable CCC Water to collect the revenue it needs to function as a reasonably efficient business and as regulation requires it to. We require CCC Water spend the money raised through water service prices on the water services it provides. We assume CCC Water is now clearly aware of this requirement and will comply with this. IPART understands the Public Inquiry is also considering the issue of appropriate use of restricted funds. However, the Inquiry findings are not yet available.

Given what CCC Water has said about its need to spend money on its water services, we would expect that there would now be a focus on using this money in a compliant way in the water and wastewater functions of CCC Water as a Water Supply Authority. At our next pricing review, we will assess where the money it collected through water service prices has been spent.

We have also assessed the bill impacts of our draft prices by comparing bills against income for a range of households including those use that are low to high users of water, with low to high incomes, and those who are pensioners. This analysis is presented in our [Draft Information Paper on Draft prices and bill impacts](#).

We set draft prices to allow customers more time to manage bill impacts

In consulting with the community, we asked if people would prefer any increase in prices to be applied in one go at the beginning of the 4-year determination period or phased-in more gradually over this period. Most people told us they would prefer it to be phased-in, as they believed this would allow customers more time to manage the bill impacts.

We considered various options to gradually increase prices over the determination period or increase prices in one go in the first year. In response to feedback from the community, we made a draft decision to phase in the increase to bills to minimise bill impacts in the first year of the determination. Under our draft decisions, we have set draft prices so that total residential bills would rise by 19% (\$200) from \$1,058 to \$1,258 in the first year and then rise on average by 4% each year or 12% (\$148) over the following 3 years to be \$1,406 in the last year. Bills would also rise by inflation. Figure 1 compares bills under our draft prices with bills under CCC Water's proposal.

Figure 1 Bills under our draft prices compared to CCC Water's proposal



Note: Based on a household with a typical usage of 170 kL a year. These bill increases also exclude inflation.
Source: IPART analysis

We propose to set stormwater prices so they rise in the first year and remain flat across the years. If we set stormwater prices to rise gradually, they would be the highest in the last year of the determination period. This would be necessary to allow CCC Water to earn more than it needs in the final year to compensate it for earning less than it needs in the earlier years of the determination period. We consider this would be out of step with our view that we do not intend to set stormwater charges for it in the next determination period.

Prices resulting from our draft decisions may change if interest rates change between our Draft Report and our Final Report. This is because interest rates affect how much income CCC Water needs to earn through prices.^p A change of 0.5% in interest rates would lead to a change in the average bill for a typical household customer of about 4% or \$58.

Typical bills would represent around 1.8% of typical household income

Under our draft decisions, typical bills would represent around 1.8% of a typical Central Coast household's income over the determination period. For households living in apartments, bills would be around 1.5% of typical household income.

Overall, price increases are necessary to ensure CCC Water can maintain and improve its water services. We have ensured that customers are only paying for the reasonable costs of ensuring water is safe and reliable. We recognise that for some households, the bill impacts could be more or less than our analysis indicates, depending on their specific household characteristics, water usage and income. For example, for a pensioner who lives alone, bills could be around 3.7% of their income while for a high-income household, bills could be less than 1% of their income.

We are concerned about the impact of price increases on those with limited income. As the percentage increase to pensioner bills is higher compared to other groups of customers, we intend to recommend that the NSW government to review pensioner concessions and consider whether these remain appropriate. To help some customers pay their bills, we also recommend that CCC Water promotes its assistance programs such as payment plans, as well as considering how to better target assistance to those who need it. We also recommend that CCC Water work with the community to assist with water conservation to allow them to manage their bill.

Business customers would also see similar increases in prices and bills

Our draft prices mean that prices for businesses would rise by around the same percentage as prices for households. However, the impact on bills for business customers may vary. The impact on your bill as a business owner would depend on, for example, the type and size of your business, how much water your business uses, and how much wastewater it discharges, the size of your water meter, whether the business is located in the former Gosford or Wyong local government area, and the size of your property.

More information on our draft pricing decision and analysis of bill impacts, including for business customers is available in our [Draft Information Paper – Draft prices and bill impacts](#). Our draft pricing decisions on trade waste and miscellaneous charges, and for specific customers such as retirement villages are available in our [Draft Technical Paper – Trade waste and other prices](#).

^p Detailed information is available in our [Draft Technical Paper – How we set the revenue level](#), in which we discuss the interest rate, also known as the Weighted Average Cost of Capital (WACC), we use to calculate the council's return on its assets.

Our draft recommendations aim to improve CCC Water's performance and accountability

CCC Water's service levels, and the availability of information to customers on how it is performing are issues that need to be addressed by CCC Water.

In making our draft recommendations, we have considered how best to address customers' concerns about CCC Water's performance, and its accountability for this performance. We considered a range of different options and plan to recommend the introduction of reporting to hold CCC Water to account on how it spends its money to improve service outcomes for customers. We consider that this would include:

- undertaking further consultation during our public hearing, to seek community input on what areas of performance CCC Water should be required to monitor and report on to its customers
- CCC Water reporting yearly on its performance through a publicly available report on its website.

This would give CCC Water an opportunity to demonstrate it is implementing recommendations from the current Public Inquiry and that an elected council is driving its performance.

We also intend to recommend that the Minister give IPART a referral to undertake an investigation and report publicly on CCC Water's performance as a Water Supply Authority and its progress implementing management and governance improvements in 2 years' time. We may also look at whether stronger elements of its regulatory framework are necessary. A terms of reference provided to IPART for this investigation, would require CCC Water to provide us with the necessary information needed to assess its performance.

These measures would provide the community with the transparent information people want and need to help assess CCC Water's performance and hold it to account for its performance. We consider this will help to ensure CCC Water better invests in its functions as a Water Supply Authority. In the long term, this should lead to better water and wastewater services and better value for money for customers.

More information on these draft decisions is available in our [Draft Information Paper – Improving performance](#).

Our draft decisions reflect the costs CCC Water needs to cover

We have set prices on the basis that the income CCC Water earns from its Water Supply Authority is no more or no less than it needs to provide the water and related services the community expects. This is important because:

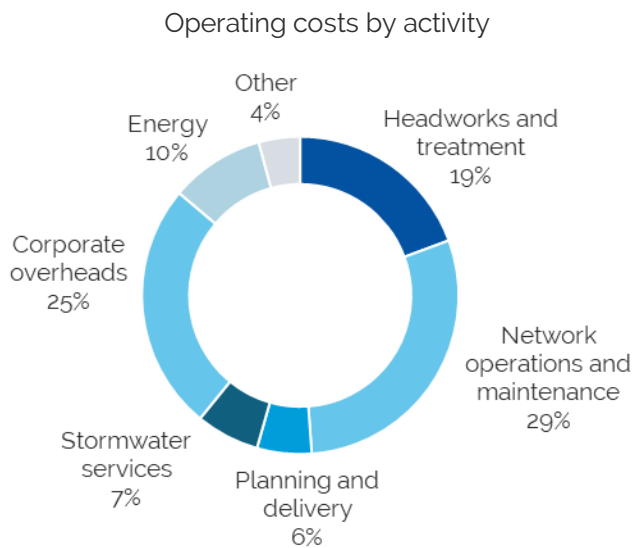
- If it earns more than it needs during a determination period, CCC Water would collect more money from its customers than is fair during that period. It may also spend more than it should and would have little incentive to improve the way it manages its Water Supply Authority.⁹
- If it earns less than it needs during a determination period, it may not be able to spend what is required to provide services of a quality acceptable to the community. Over time, its dams, pipes, pumps and treatment plants may deteriorate, leaving future generations to pay steep price increases to 'fix' them or accept poor quality services.

To help us get this balance right, we reviewed CCC Water's proposed operating and capital costs for its Water Supply Authority over the next 4 years and compared this to its past costs. We looked at what level of income would be necessary for a reasonably efficient water business to deliver these services compared to what level of income CCC Water had proposed. In making our draft decisions, we also considered advice from expert consultants Frontier Economics and Mott MacDonald. We engaged these consultants to review the efficient level of costs – that is, the least cost necessary to ensure water services are secure, safe and reliable.

We have set draft prices based on a 24% increase in operating costs

Operating costs are CCC Water's day-to-day costs on items like staff wages, electricity and contractors. Like most water utilities, operating costs are the biggest expense CCC Water incurs in running its water, wastewater and other services.

⁹ We would consider any over or under-recovery as part of our assessment of costs and setting of prices for the next determination period.



Note: Estimated based on CCC Water's 2021-22 budget. Figures may not add up to 100% due to rounding.

We reviewed operating costs to ensure we allow only those costs needed to deliver water services that customers need and expect

Our draft decision is to set prices based on an operating cost over the 2022 determination period that is 24% higher than what we used to set prices for CCC Water at our last review in 2019. Our decision considers that CCC Water has historically underspent and needs to spend more to meet its regulatory obligations, service standards, and deliver better services.

Our draft decision on CCC Water's operating costs is 9% lower than CCC Water proposed over the 4 years. We have based our decisions on an understanding of what a reasonably efficient water business's operating costs should be.^r This ensures that customers pay no more than necessary. The operating costs we have used to set prices are also lower because we expect that CCC Water's proposed spending should improve its systems and processes to deliver cost savings over the 2022 determination period. In addition, we are not accepting CCC Water's proposal to transfer additional stormwater services which are currently funded through local government rates, to the Water Supply Authority.

We have set draft prices based on a 6% increase in capital costs

Capital costs are what CCC Water spends to buy or build new infrastructure and equipment for its Water Supply Authority. This might include repairing or replacing old water and wastewater pipes under roads, building a new wastewater treatment plant in a new development area, or installing a new computer system to help manage its day-to-day operations.

^r This is based on our approach for reviewing what a water business's costs should be based on benchmarking Australian water businesses.

We have reviewed capital costs to ensure they are adequate to allow CCC Water to maintain and improve its water system but as low as possible to ensure a secure, safe and reliable water supply. Our draft decision is to set prices based on capital costs that are 6% higher than what we used to set prices for CCC Water at our last review in 2019.

Our draft decision is 5% lower than the capital expenditure that CCC Water proposed over the 4 years. This is in line with recommendations from our consultants that CCC Water could explore alternative options and better target and prioritise its spending on improving water quality and wastewater treatment. This ensures customers do not pay more than what is needed.

More information on our review of the council's costs is available in our [Draft Information Paper – Operating and capital costs](#), our consultants' report, and our [Draft Technical Paper – How we set the revenue level](#).

Our draft decisions signal local government rates should fund stormwater

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. Stormwater services allow people to move around after heavy rain, for example, to go to the shops and do errands. The council currently covers some of the costs it incurs in providing stormwater services (such as the council's environmental management activities for flood planning and stormwater quality management) through local government rates and the rest through stormwater drainage service charges paid by CCC Water customers.

For this review, we considered 2 issues relating to stormwater services provided by the council:

- Firstly, we considered CCC Water's proposal to transfer stormwater costs currently funded by local government rates to CCC Water, so the stormwater drainage charge IPART sets would cover all of its stormwater-related costs.
- Secondly, we considered whether we should continue to set stormwater drainage prices as a water-related service at all, or whether these services should instead be fully funded through local government rates.

In our view, stormwater services provide benefits to the whole community – not just specific customers. Therefore, we think they should be funded through local government rates like other services that benefit the whole community – such as maintaining public parks and sportsgrounds, roads and bridges. For this reason, we made draft decisions to:

- Not accept CCC Water's proposal to transfer the additional stormwater costs currently funded by its local government fund to drainage charges IPART sets for CCC Water customers.
- Make clear to the council that by 1 July 2026 all stormwater costs should be paid for through local government rates, instead of through drainage charges. This is explained below.

Stormwater costs should move to the local government fund by 1 July 2026

We made a draft decision to include a clause in our Draft Determination that says in the event the 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 the council that it should move all its stormwater costs to the local government fund before the end of the 2022 determination period. If CCC Water proposes that IPART continues to set the stormwater charges in the next determination period, it must justify why prices should not be \$0.

We consider this approach would give enough time for the council to plan and implement funding stormwater costs via its local government rates income, consult with customers and consider whether it needs to prepare for any necessary special variations to local government rates.

For further explanation of these draft decisions is available in our [Draft Information Paper – Funding stormwater services](#).

We are seeking your feedback on our draft decisions

Our draft decisions and draft recommendations are listed and explained in our draft information papers and draft technical papers. We welcome your views on these draft decisions and draft recommendations.

A complete list of all our draft decisions and draft recommendations is included in our [Draft Technical Paper – Regulatory setting](#).

We have also identified further issues we will consider before making our final decisions and recommendations. These issues are also listed and discussed in our draft information papers and draft technical papers. We are keen to hear what you think about them.

Please feel free to also respond to any/all of the questions throughout these documents and as listed below. You are also welcome to raise other issues in addition to those we have raised.

Tell us what you think



1. Our draft decision is to phase-in an increase to prices so that typical residential household bills would:

- increase initially by 19% in the first year of the determination in 2022-23
- then, increase by 4% and inflation from 2023-24 to 2025-26.

If we were to set prices to increase only in the first year of the determination period in 2022-23, typical household bills would increase by 25% in 2022-23 and then by inflation only each year after that.

We want to know what you think about how we introduce the price increase.

Have your say

Your input is critical to our review process.

[Submit feedback »](#)

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

[Complete survey »](#)

[Register for public hearing »](#)

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

¹ Central Coast Council, *Administrator's 30 Day Interim Report*, December 2020, p 5.

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