

## **Submissions on the Review of Central Coast Council's prices for water, sewerage and related services From 1 July 2019**

### **1 How long should we set prices for in the 2019 Determination?**

The price path needs to consider the veracity of the inputs. I would suggest the inputs from Central Coast Council are extremely tenuous to say the least. Therefore, a short determination is suggested.

### **2 Should we allow unregulated pricing agreements between the Council and its large non-residential customers? Why or why not? – If we do allow unregulated pricing agreements, how should we define large non-residential customers? Should there be any other restrictions on these agreements?**

Un-regulated pricing agreements will not work where local political influences are at hand. This is extremely important where we are considering the third largest Water Authority in the State of NSW which is also currently run by a Local Council, rather than a dedicated Water Authority as part of say, Hunter Water or Sydney Water.

### **3 Should we apply an efficiency carryover mechanism to the Council's operating expenditure?**

This is a difficult issue but based on past performance, efficiency gains are unlikely within poorly managed Local Government bodies. Cross subsidies within the greater Council are rife, resulting in compromised unit costs across the water business. The actual figures provided may not represent the real world.

### **4 Has the Council's expenditure over the current determination period delivered appropriate levels of service?**

Levels of service need to be separated into at least two categories to establish the level of service provided. The first is the operational cost required to deliver the service with the existing infrastructure, while managing the risks to the delivery of the service within the appropriate guidelines.

The second is the level of expenditure required to economically manage the infrastructure throughout the life cycle of the various classes of assets, while managing the risks to the delivery of the service required within the appropriate guidelines/standards.

A simple review of both categories of budgeting/expenditure over an extended period indicate less than optimal performance on both counts. The variances between the two former Council bodies in terms of both operational and capital programs indicates a vast difference in the application of the required basic expenditure profiles to meet operational and risk management outcomes, supporting the view that Local Government is not in a position to manage a disciplined asset management approach to the water business required to manage the short and long term expenditures required of the third largest water business within the State of NSW.

1 Is the Council's proposed expenditure for the next determination period reasonable? – Do you have any comments on the reasons outlined by the Council for the proposed expenditure (including any major projects proposed by the Council)?

The newly formed Central Coast Council is relying on the adage that non delivery of required asset management programs is acceptable. The notion that you can summarily suspend established asset management expenditures simply because previous budgets have once again not been delivered is symptomatic of an out of touch management. The organisation must be held accountable for the less than optimal performance with regard to long term non delivery of their capital works programs.

The former Wyong Council precipitated an emergency reduction in both capital and operational expenditures several determinations ago when the less than robust submission resulted in significant real time reductions in allowable pricing. This resulted in a sudden reduction in staffing to reduce costs in alignment with reduced real time income.

5 Do you have any comments about the Council's performance against the output measures in Appendix G? What output measures should we use for the upcoming determination period?

The fact that there is \$90M in unexpended budgets indicates the long term under expenditures, particularly in the capital program, continue unabated. This non optimal level of performance has continued over many years without being held accountable.

More appropriate Output Measures might include:

- a measure of the proposed asset refurbishment/replacement budgets compared to the asset base of the various asset categories, against expected allocations based on sound asset management practice
- a measure of asset management budgets allocated compared to the actual delivery of the proposed programs for each asset class.

To be of any value, output measures need to directly impact on the viability of the business in its current form.

6 Should we continue to provide a demand volatility adjustment mechanism for the Council? – Should we reduce the volatility band in which we do not apply a demand volatility adjustment? If so, what is an appropriate band?

Yes. Water demand had serious consequences during the previous drought, with long term reductions in demand resulting in significant reductions in income. Ongoing water conservation measures reinforced the effects well beyond the drought period. The proposed excessive reductions in rates and charges has the potential to compromise the business. If the proposed rate/service charge reductions are confirmed, the customers need to be made aware of the high financial risk of the proposed rate reductions. The credibility of the organisation will be destroyed when it is found that existing incomes are insufficient to meet longer term obligations.

7 Should the notional revenue requirement for water and sewerage prices include the costs of providing pensioner rebates and not charging exempt properties that are not funded by the NSW Government?

Yes. The State Government implemented the rate rebates and should be held accountable for funding them.

## 2 Are the Council's proposed price changes reasonable? Would they have any undue impact on any customer groups?

To suggest significant rate reductions based on the use of unexpended capital funding is an extremely short term view of the business needs. Unexpended funds need to be applied to the previously identified priorities, with renewed funding being provided for within the next Price Path for ongoing asset management requirements. The asset management expenditures cannot simply be delayed to fund a shortfall in income due to the proposed reduced prices. This strategy is not sustainable. Customers will obviously be pleased to receive rate reductions but will be outraged when it is discovered that the business was in fact under-funded and increases are then required.

## 8 Should water and/or sewerage service prices be aligned across the Council's area? Why or why not?

The alignment of costs appears to be the most reliable method of applying water and sewerage rates across a service area. There are then no political or other drivers that could favour one customer over another.

## 9 Should stormwater drainage prices be aligned across the Council's area? Why or why not?

Stormwater management costs are difficult to breakup on a single property basis. Even larger catchments can be influenced by adjoining catchments during larger storm events. Further, catchments can be influenced by inadequate expenditures within adjoining catchments. It would seem to be prudent to align all customers.

## 10 Should all of the Council's water and sewerage service prices be set on a 20mm meter basis?

The vast majority of customers have a 20mm water connection. Unless there is found to be a better model, it would seem to be the most appropriate method into the future.

## 11 Should residential service prices be lower for apartments than for houses? Why or why not? – Should we deem individual apartments to have a 20mm meter (for the purpose of setting service prices) or should apartments pay water and sewerage prices based on their actual common meter size?

Where the service charge is based on meter size, apartments should be charged for an equivalent 20mm meter to reflect the shared fixed costs of the entire water system.

## 12 Should retirement villages continue to be charged service prices on the basis of their meters?

Yes, unless the State Government funds the difference. Full recovery of actual costs should be the basis for all customers.

### 3 Are the Council's proposed water service prices reasonable?

The proposed water service prices have been reduced for political purposes rather than on an actual cost basis. The business needs to be free of local political interference. New output measures need to be developed to ensure:

- proposed refurbishment/replacement budgets meet accepted practice across all asset classes to ensure political influences do not compromise required ongoing expenditures for short term political gain.
- the delivery of the proposed expenditure programs are economical and actually deliver the programs proposed in a timely manner
- the resourcing of operational budgets is based on accepted benchmarks of similar sized water businesses within Australia

### 4 Are the Council's proposed sewerage service prices reasonable?

Comments for water apply

13 What is the appropriate deemed sewerage discharge volume to include in sewerage service prices? Should the deemed discharge volume be different for houses and apartments?

14 Rather than including a discharge allowance in service prices, should sewerage usage be billed separately for all customers? Why or why not?

15 On what basis should we set sewerage usage prices?

5 Is the Council's proposed sewerage usage price (or prices) reasonable?

16 On what basis should we set water usage prices?

Water usage price needs to provide sufficient funds to run the business when added to the expected service charges, including asset replacement reserves. Since the income on this is driven by actual demand, flexibility is required to ensure the business is appropriately funded.

#### 6 Is the Council's proposed water usage price (or prices) reasonable?

The propose reduction in usage charges is politically driven rather than being based on funding needs.

#### 17 What prices would be appropriate for unmetered properties? – Should they be charged for usage based on the property's previous two meter-reading periods (as in the former Gosford Council's area) or based on a deemed amount (as in the former Wyong Council's area)?

By definition, a usage charge should be levied on customers that have no usage.

#### 18 Should the Council's stormwater prices be based on the area of a customer's property? Why or why not?

#### 7 Are the Council's proposed stormwater drainage prices reasonable?

#### 19 Should there be a low impact customer category for stormwater drainage prices? If so: – Should a low impact customer price be available to both residential and non-residential customers? – What should the low impact price be compared to other stormwater prices?

#### 8 Are the Council's proposed trade waste prices reasonable?

#### 9 Are the Council's proposed miscellaneous and ancillary prices reasonable?

20 Should we set maximum prices for the Council's recycled water services now, as part of this review? If so, why?

21 Should we set maximum prices for the services the Council supplies to WICA licensees now, as part of this review? If so, why should we set these prices? And, what is the appropriate price (or prices)?

22 What is the appropriate basis for setting the bulk water transfer price between Hunter Water and the Council? – Should the price be the same in both directions?

The price needs to be equal in both directions.

10 Are the Council's and Hunter Water's proposed prices for bulk water transfers between the two regions reasonable?

The price must reflect the average marginal cost.