

Review of Prices for Water, Sewerage and Stormwater Services to Gosford City Council and Wyong Shire Council

Submission by Michael Conroy

Introduction

I am a resident and ratepayer in the suburb of ██████████ in the Gosford Council area. I made a submission to the IPART Review of this issue for the previous period and find that very few of the issues that were identified in that review have been resolved.

Gosford Council continues to:

- propose programs that are over-ambitious for the resources available;
- propose programs that discriminate against the older urban areas;
- show little progress in improving their efficiency; and
- adopt pricing strategies that mainly rely on service charges and, therefore, discriminate against households with low water and sewerage usage.

Council's capital expenditure over the current period

A cursory examination of Gosford Council's capital expenditure in section 4.4 of the IPART Issues Paper might conclude that it had been well-managed because the actual expenditure has been close to what was approved by IPART in its 2009 Determination. However, more detailed examination of the capital expenditure in Council's submission reveals that the Mardi – Mangrove Creek link is the only major project that has actually been **completed** with expenditure close to the approved amount. Furthermore, this project was managed by the Gosford-Wyong Councils Joint Water Supply (i.e. a project team based at Wyong Council) and Gosford Council's only input was its share of the funding.

Improved reliability and quality of water supply?

Although Council claims to have improved the reliability and quality of water supply, they are still not satisfactory. Table A.1 of Council's own submission includes output measures which indicate that public complaints concerning water quality still exceed the required level and the number of water main breaks are still nearly 3 times the required level. Furthermore, there have been major incidents that Council has not reported to IPART such as the detection of E.coli at the Kariong reservoir in February 2012, which resulted in the residents needing to boil their drinking water over a period of 48 hours.

Upgrade Sewage Treatment Plants to improve reliability and minimize environmental harm?

The 2009 Determination provided for capital expenditure to upgrade the Kincumber and Woy Woy STPs. Although Council claims to have completed a major upgrade of these STPs,

it is difficult to interpret Table A.3 of Council's submission. The footnote seems to indicate that funds allocated for the Woy Woy STP may have been diverted to the Kincumber STP.

It appears that Council has already spent about \$32.8 million on the Kincumber STP, which is 29% above what was approved in the 2009 determination. In Council's brochure about this project (June 2010), it is stated that this project would cost about \$30 million and it would be completed by the end of 2012. Should the project not be nearly completed since the expenditure already exceeds what was approved?

On the other hand, only \$1.42 million has been spent on upgrading Woy Woy STP, which is only 37% of what was approved in 2009. In Council's brochure about this project (June 2010), it is stated that this project would cost about \$10 million and it would be completed by December 2012. When will the rest of the approved expenditure on Woy Woy STP take place?

Stormwater drainage projects to reduce the backlog?

Council's capital expenditure on trunk stormwater drainage over the current period has exceeded \$20 million. However, most of this appears to have been spent on 4 major projects in the areas between Brisbane Water and the Pacific Ocean. Section 3.6 lists projects at Kincumber, McMasters Beach, North Avoca and Pretty Beach; however, Table A.3 also lists projects at Copacabana, Terrigal and Gosford, which would have cost over \$5 million in total.

Table A.3 of Council's submission lists three projects that have been deferred in the current period. All of these projects are in the areas west of Brisbane Water – Narara, Woy Woy and Pearl Beach. It appears, therefore, that Council has shifted all of the expenditure approved for areas west of Brisbane Water to the coastal areas.

In the last 12 months there have been a number of petitions submitted to Council from residents of Peninsula streets that are frequently affected by nuisance flooding. No action appears to have been taken on these petitions, although some have been reported in local newspapers. Council's submission to the IPART Review has not even mentioned residents' dissatisfaction with stormwater drainage on the Peninsula.

Council's proposed capital expenditure for the next period

Improved reliability and quality of water supply?

With the completion of the Mardi – Mangrove Creek link one would expect the capital expenditure for water infrastructure to be reduced considerably in the determination period. So the reduction from about \$110 million in the current period to \$41.7 million in the next period is probably reasonable in view of the need for upgrading of Mangrove Creek Dam and the Somersby Treatment Plant, as well as the need to replace obsolete water mains.

The projection for expenditure of about \$105 million in the 6 years after the next period is a major concern. This would return capital expenditure on water supply back to the peak levels of 2009 – 2011 when the Mardi – Mangrove link was under construction. Council should consider how this expenditure could be staged over at least 10 years, in order to cap expenditure on water infrastructure at about \$10 million per year.

Upgrade Sewage Treatment Plants to improve reliability and minimize environmental harm?

It is proposed in Appendix B that a further \$13.8 million needs to be spent on the Kincumber STP in the next 4 years. As discussed above, the capital expenditure at Kincumber STP already exceeds the approved amount for the current period by 29% and it appears that funds approved for upgrading the Woy Woy STP have been diverted to the Kincumber STP.

Has the Council undertaken any economic evaluation of the upgrading expenditure proposed for the Kincumber STP? Although it was only built about 30 years ago, Council's submission seems to imply that most of the plant has reached the end of its economic life. Is this normal for STPs or is Council making an ambit claim for a "Rolls Royce upgrade" so it can do a "Holden upgrade" and shift the excess funds to other projects?

It is also proposed to spend \$13 million on the so-called Cockle Bay Towns project. This is actually a proposal to connect 300 rural-residential properties to Council's sewerage system because of the environmental risks of pollution from their on-site sewage disposal systems.

A Council letter to the owners of these properties (February 2012) indicates that:

- Owners will not be compelled to connect their properties to the sewerage system as long as their on-site system is operating satisfactorily.
- Owners who do connect to the system will be eligible for loans to cover their contribution to the capital cost of the system and they will have up to 20 years to repay these loans.
- Only 50% of respondents to Council's public consultation indicated willingness to pay a contribution towards the capital cost of the system.

It can be concluded from the information in Council's letter that the capital cost of at least \$13 million for the proposed Cockle Bay Towns project has a very high risk of not being recouped through contributions from the property owners who connect to the system. It can be expected that many of the property owners who do connect to the system will make the minimum repayment for loans granted to cover their capital contribution.

The owners of these properties have made no contribution to the Council's sewer fund. In contrast, owners of properties in urban areas (of the Gosford Council area) started making contributions in the 1970s although most houses were not connected to the sewerage system until the late 80s or early 90s. Council is now proposing that ratepayers in urban areas pay increased sewerage rates in the next 4 years to provide capital funding for a sewerage system for these rural-residential areas, although the owners of these properties will have up to 20 years to pay for their contribution to the capital fund.

It would be totally inequitable for the Cockle Bay Towns project to be funded from the Council's general sewerage fund which has been established to provide sewerage for urban areas and has received contributions only from property owners in urban areas since it was established. Council should establish a separate sewerage fund for non-urban areas and it should take contributions from all properties in the service area of the Cockle Bay Towns project, whether or not those properties are connected to the system.

Stormwater drainage projects to reduce the backlog?

In Council's submission to IPART, the proposed capital expenditure for stormwater drainage is only \$13 million for the next period, compared to expenditure of about \$22 million in the current period. Only two area specific projects are listed in Appendix B of Council's submission – more work in Kincumber and Terrigal. There are no projects listed for the areas west of Brisbane Water even though three projects in those areas were deferred in the current period.

Council undertook a major drainage study for the Woy Woy Peninsula 20 years ago that identified a major backlog in this area. Most residential streets on the Peninsula have no physical connection to a stormwater drain because they were developed without kerb and gutter. They coped with minor storms when they only had low density detached dwellings, because the sandy soils absorbed most of the rainfall.

The Peninsula has been identified in Council's strategic plans as the main area (other than Gosford CBD) for increased residential densities and this is reflected in the Central Coast Regional Strategy and in Council's Draft Local Environmental Plan 2009. However, the major drainage study identified the need for major drainage works costing \$30 million (1992 dollars) to service existing and proposed residential development on the Peninsula (see Appendix A which is copied from Council's Contributions Plan – Peninsula Drainage).

The recommendations of the study were the basis for Council gaining approval to introduce a Drainage Levy of \$40 in addition to the general rates. The residents of the Peninsula have paid this drainage levy (now indexed to \$82.50) for about 20 years.

Has Council undertaken any significant works to improve stormwater drainage on the Peninsula in the last 15 – 20 years? Where has Council spent the development contributions collected from residential development on the Peninsula in the last 20 years? When will residents of the Peninsula gain any benefit from their contributions to the drainage fund for the last 20 years?

Appropriate price structures

It is understood that IPART sets prices with the aim of implementing a user-pays policy. This has objectives in relation to both:

- Equity - users with low consumption should not subsidize users with a high consumption, and
- Efficiency - users should at least pay the marginal cost of the service they consume.

An important objective relating to efficiency is that users should be encouraged to reduce their demand for the service so that the total demand, and in particular peak demand, on infrastructure is minimized.

There is a fundamental problem with the pricing model currently used by Gosford Council, which has apparently been endorsed by IPART. A so-called typical user with a residential water consumption of 200 kL per annum is only paying a variable charge in 2012/13 of \$424.00 for their water usage: the fixed service charges for water, sewerage and stormwater total \$716.62 for all residential users.

The variable charge for this typical user is only 37% of their annual cost for water, sewerage and drainage. This typical user could double their water consumption to 400 kL per annum and although their variable charge will double, their annual bill will only increase by 37%. The pricing model is, in effect, providing economies of scale for residential water users.

If their water is mainly used for domestic purposes such as in the kitchen, bathroom or laundry, any extra water use will also increase their wastewater production, adding to their use of the sewerage system. This means that users are not getting a strong price signal because the pricing model is only charging roughly half the marginal cost of their use of the water and sewerage systems.

Council's proposed prices for the next 4 year period will exacerbate the distortion that this pricing model contains. For the typical residential water user, with annual consumption of 200 kL, the variable charges will fall to 35% of their total bill in 2013/14 and down to only 31% of their total bill in 2016/17. The distortion will get worse because the pricing model will increase variable charges by 27% from 2012/13 to 2016/17 but the fixed service charges will increase by 69%.

The distortion caused by the pricing model is not only inefficient, it is also severely inequitable. Elderly people would generally live in one or two person households and have lower than average water consumption. The pricing model, however, would have a far more severe impact on households with low water consumption.

Council's submission (Table 40) shows that the total bill for a residential user with annual consumption of 100 kL will increase by 59% whereas the bill for a residential user with annual consumption of 750 kL will increase by only 40%. Even a household with consumption of 400 kL will only suffer an increase of 46% in their annual bill.

The inadequacy of the pensioner rebates for water and sewerage bills is already a major issue on the Central Coast. The inequitable pricing model being used by the Council will exacerbate the financial difficulties of pensioners and increase the need for much larger pensioner rebates.

The simple way to fix the pricing model is to introduce a variable sewerage usage charge. It is presumed that this has not been considered previously because there is no metering of sewerage use. Furthermore, it would be very expensive, and probably controversial, to introduce such metering.

The solution, however, is quite simple if one assumes that sewerage use is directly proportional to water use. The pricing model could be amended to include a sewerage usage charge that is proportional to a household's water use; the sewerage service charge should be reduced by an amount which will balance the total revenue from sewerage charges.

Households that use a lot of water for external purposes such as garden watering and car washing may complain that this concept would be unfair for them. However, the simple answer is that the external use of potable water should be discouraged and the increased use of variable charges will reinforce or replace the current Council restrictions on such use.

Conclusion

There is a pattern of behavior in Council's management of capital expenditure on its water, sewerage and drainage systems which includes:

- Proposing a comprehensive program for building or upgrading an infrastructure system for the whole Council area
- After 4 or 5 years of developing and implementing such a program, the Council finds that funds are not adequate because the projects have exceeded their budgets and their time estimates.
- So Council diverts funds from some smaller projects in order to continue work on the larger projects. It is usually the smaller projects on the western side of Brisbane Water that are deferred to divert funds to the larger projects in areas such as Kincumber, Avoca and Terrigal where there has been more recent development.
- The Council then applies for further funds to complete the larger projects in area between Brisbane Water and the Ocean, because these projects always need further work to achieve current environmental standards.
- The backlog of capital works required in the older urban areas west of Brisbane Water continues to grow as more residential development is encouraged as part of Council's strategy of increasing residential densities on the Woy Woy Peninsula.
- The increased budget for capital works provides a basis for requesting IPART to approve massive increases in the water and sewerage charges. The reliance on a pricing model that raises about two-thirds of the revenue from annual service charges is contrary to the objectives of IPART's user-pays policy.
- The pricing model is inconsistent with economic efficiency, because it does not discourage increased water use. The Council's use of the pricing model is inequitable because it produces larger increases in the water and sewerage bills of households with low water consumption than those with above average water consumption.

APPENDIX A

RECOMMENDATIONS AND CONCLUSIONS OF WEBB, MCKEOWN & ASSOCIATES

Extract from "Woy Woy, Umina, Ettalong, Peninsula Drainage Strategy Study June 1992"

The purpose of this study was to develop a trunk drainage strategy for the whole of the Woy Woy, Umina, Ettalong Peninsula area. In developing the strategy, the works required to mitigate existing drainage problems and those required to allow for further development were considered separately, to enable calculation of Section 94 drainage contributions.

Costs were calculated for pipe and channel works including culverts and bridges, and services relocation, to upgrade to the proposed standards (refer to Section 5.2). The cost to upgrade all existing trunk systems to the proposed standard for existing development is \$14.2 million. The cost to upgrade to cater for ultimate future development is \$29.7 million.

The difference in cost was used in estimating appropriate Section 94 trunk drainage contributions. The rate was calculated to be \$17 720/ha, which includes only pipe and channel works, culverts and bridges, and services relocation. Land acquisition and compensation payments for easements have been excluded.

The estimated Section 94 minor drainage contribution is \$13 000/ha. Thus the Section 94 contribution for both trunk and minor drainage works is \$30 720/ha.

For the upgrading of the existing drainage system to cater for the existing level of development, funding of the works would be limited (refer to Gosford City Council's letter dated 20 December 1991) and a medium term timeframe is envisaged before all the works recommended in Appendix C could be implemented.

The various sub-catchments should be ranked in order of priority to develop a program of works taking into account works which have the greatest hydraulic and social benefits. Implementation of minimum floor levels for new buildings or existing building extensions should be immediate.

For areas zoned 2(b) – medium density development – the collection of Section 94 funds sufficient to construct the works would only be collected over a long period. Therefore, minimum floor levels should be incorporated in all new development to ensure flood freedom in the meantime.