



GENERAL MANAGER'S REPORT

3rd February 2009

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|------------|-----------------------------|------------------|------------------------|
| GM8 | WATER INQUIRY MODELS | | |
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SUMMARY:

To outline potential costs of supporting the various models recommended by the Water Inquiry.

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DESCRIPTION:

The Water Inquiry released their report on secure and sustainable urban water supply and sewerage services for non metropolitan NSW on 14 January 2009.

The Inquiry is recommending that three organisational options be considered for the future delivery of water supply and sewerage services:

- Binding alliance
- Council owned regional water corporation
- Current structure arrangements for certain existing large water utilities

The effect that these models could have on Council is as follows:

Binding Alliance

The Binding Alliance as recommended is far more structured than existing resource sharing arrangements between councils. Attached ([Appendix E - K125](#)) is an outline of the binding alliance model.

The benefits of the model are outlined in the paper but can be summarised as:

- Council retains ownership of its assets.
- Council continues to provide the services and retain staff.
- Council provides customer service.
- Council is responsible for maintaining assets.

The disadvantages are:

- Council would need to share its strategic planning responsibilities with other councils through the alliance entity.

- Some decision making would be taken away from Council viz –
 - planning decisions
 - tendering of major works
 - setting water and sewerage charges
 - decisions regarding water restrictions
- The entity would need to be resourced which could entail additional costs for customers over and above any cost savings. It has been estimated that the costs of establishing an entity could be between \$375,000 and \$720,000. Based on these figures the Mid North Coast entity customers could expect increased charges of between \$8 and \$15 per assessment.

Council Owned Regional Water Corporation

The establishment of council owned regional water corporations would involve transferring asset ownership and operating responsibility from each council to the Corporation.

The advantages of such a model would be:

- A Corporation would be established that specialises in water and sewerage.
- In theory economies of scale should produce cost savings.
- Large projects would be able to be financed.
- Councils would be shareholders of the Corporation and would receive a dividend that would offset the additional costs that would be incurred by General Fund.
- Higher professional/technical staff levels.
- The Board would have members with commercial expertise.

The disadvantages would be:

- Council would have to surrender its water and sewerage assets.
- Council would no longer provide water and sewerage services which would have impact on employment and Council revenues.
- Council's Corporate Services are funded by General Fund, Macleay Water and Domestic Waste. If Macleay Water was lost to Kempsey Shire their contribution to these corporate services would be lost. These contributions are estimated as:

| Item | Cost | No. of Staff |
|---------------------|-------------|---------------------|
| Fleet Management | \$218,000 | 1.5 |
| Computer Services | \$104,867 | 1.5 |
| Corporate Buildings | \$26,097 | 0.2 |
| Customer First | \$26,000 | 0.5 |
| Financial Services | \$345,727 | 3.0 |

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|------------------------------|--------------------|-------------|
| Organisational Effectiveness | \$40,591 | 0.2 |
| Purchasing | \$211,592 | 1.2 |
| Sustainable Development | \$47,342 | 0.6 |
| Shire Services Management | \$183,200 | 1.0 |
| Human Resources | \$79,000 | 1.0 |
| Public Relations | \$26,250 | 0.1 |
| Rental Underground Pipes | \$399,500 | - |
| Investment Income | \$200,000 | - |
| | \$1,908,166 | 10.8 |

Fractions of staff cannot be transferred nor can rentals or investment income.

- Any dividend paid would not meet all of these costs.
- A whole new organisation would need to be established including Administration building, depots etc at a large establishment cost plus there would be another tier of bureaucracy.
- If Kempsey was not the site of the headquarters there would be a large economic loss to Kempsey.
- All Councillors would not be involved in water and sewerage decision making. The Board would have a maximum of seven with an allowance for a maximum of two Councillors who would need to have professional expertise.
- Customers would have to travel longer distances to get customer service if face to face contact is required.
- There could be disputes with asset transition/ownership issues.

Current Structure

The status quo would remain. The Inquiry is recommending that Queanbeyan City Council, Bega Valley Shire Council, Eurobodalla Shire Council, Clarence Valley Council, Tweed Council, Tamworth Regional Council, Wingecarribee Shire Council and Shoalhaven City Council stand alone. In respect Mid North Coast Local Water Utility proposal the Inquiry commented "in terms of scale and resources, both Kempsey and Port Macquarie-Hastings probably have the ability to stand alone as sustainable utilities". The major disadvantage to standing alone is the lack of financial/professional/technical resources that a stand alone entity can provide and the lack of planning on a regional basis.

There is no doubt in my mind the recommendations of the Inquiry are structured to introduce transitional arrangements before proceeding to a full corporation model. By surrendering some powers and functions to a binding alliance it will be an easier transition to the Corporate Model following the review period.

A series of meetings have been arranged with Port Macquarie-Hastings and Nambucca Councils prior to the Council meeting and a better understanding of the position we should take should be available at the

Council meeting. Submissions in respect of the recommendation will be received up to 20 March 2009.

RECOMMENDATION IMPLICATIONS:

- *Environmental*

Nil

- *Social*

Nil

- *Economic (Financial)*

Nil

- *Policy or Statutory*

Nil

- *General Manager's Review*

Nil

RECOMMENDATION:

That the information be noted.

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A V Burgess
GENERAL MANAGER