



MINUTES OF THE EXTRAORDINARY MEETING OF KEMPSEY SHIRE COUNCIL

Tuesday 22nd April 2003 commencing at 9.06am.

PRESENT:

Councillors J A C Hayes, (Mayor and Chairman), J H Howell, R J Bowen, T Hunt, B R Sowter and J Sproule.

Acting General Manager, K J Finnie; Director Corporate and Community Services, T I Hannam; Acting Director Business Enterprises, G R Pearson, Manager Organisational Effectiveness J C Clegg; Manager Financial Services A P Curtin, Anne-Maree Burke, Wayne Shore and Pat Hanrahan.

Also in attendance was Mr Scott Chapman from the Department of Energy and Utilities.



APOLOGY:

2003. 368

RESOLVED:

*Moved: Cl. Hunt
Seconded: Cl. Sowter*

That the apologies submitted by Councillor Parkinson and Aboriginal Mentoring Participant Ms Colleen Campbell for non-attendance at the meeting be accepted and leave of absence granted.



WORKSHOP – WATER SUPPLY PRICING

2003. 369

RESOLVED:

*Moved: Cl. Howell
Seconded: Cl. Sproule*

That Council move into workshop to discuss matters relevant to the Director's report on Water Supply Pricing.



At this stage 9.13am the meeting adjourned and Council entered into a workshop and following resumption of the meeting at 10.58am all present at the adjournment were in attendance.



DIRECTOR BUSINESS ENTERPRISES REPORT

DBE 1	WATER SUPPLY PRICING FILE: W1-11 AMB
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SUMMARY:

Reporting on options for implementation of Water Supply Pricing Reform.

Consideration of the report DBE 13 Water Supply Pricing submitted to Council meeting of 8th April 2003, was deferred for a workshop to be held on Tuesday 22nd April 2003.

This Report provides Council with the options for achieving water supply pricing reform and implement Best-Practice pricing structures. It is proposed to publicly exhibit the results with an aim to implement a two-part water supply pricing on July 1, 2003.



Introduction

All Councils in New South Wales have a **deadline of July 1, 2004**, by which to introduce Best-Practice tariffs for water supply, sewerage and liquid trade waste. Best-Practice tariffs reflect the cost of providing services and comply with the Independent Pricing and Regulatory Tribunals (IPART) pricing principles for local water authorities.

In addition, appropriate pricing is a **pre-requisite to eligibility for financial assistance** towards the capital cost of backlog water supply and sewerage infrastructure under the Country Towns Water Supply and Sewerage programme. In the Kempsey Shire the Country Towns Programme encompasses funding for sewerage at Stuarts Point, Willawarrin and Bellbrook.

In December 2002, Council resolved to establish and implement Best-Practice pricing structures for developer charges, water and liquid trade waste by June 2004 (resolution 2002:1040). The water supply pricing structure is being tackled first, in an effort to stage the pricing reform required.

Council staff have worked with Sydney-based DLWC staff to establish a best-practice pricing structure for our water supply customers. Five (5) two-part tariff options have been established, that is, each option has an access charge and a user-pays component. One of the five two-part tariff options has been recommended for adoption and exhibition with the Fees and Charges in May and then implementation on July 1, 2003.

It is imperative that when changing water supply pricing that the community be made aware of the change, the reasons for that change and any impacts. An Information Dissemination Plan ([Appendix A](#)) has been drafted to

ensure Council's customers are made aware of the change in water pricing. A copy of the Information Dissemination Plan is included for your information.

The justification of one pricing option over another is complex. Considerations include achieving the required income to maintain the business operations, creating a revenue-neutral as a whole pricing structure and catering for the resultant water conservation, which both depletes income but can delay capital works expenditure. Coupled with these is the balancing of access charges and usage charges to deliver a least impact, cross-subsidy free water pricing.

The new pricing structure is, as a whole, revenue neutral and its operation/impact will be reviewed after the third year. However, although the pricing structure is set as overall being revenue neutral, the impact per customer type varies when the current hidden cross-subsidies of the 'allowance' system are removed. Assessment of the change in water usage patterns per scheme will occur after the completion of each 6-monthly read, with a breakdown to the major reportable categories of residential, multi-residential, non-residential, agriculture, parks/ovals, water/sewer installations and Council buildings. A financial assessment is intended on an annual basis and would occur after the completion of the final monthly read of the financial year. It is intended that at the end of the third year, an assessment of the access charge and usage price will occur, employing the assessment information gathered and the works programmed for the following 5 years. From then on, it is intended that the adopted water pricing would be in place for 5-year periods at a time.

The access charges and usage charges vary in each option but in general lowering the access charge means increasing the usage charge. The access charge is proportional to the square of the meter size, so proportionally the larger the meter size the larger the access charge. In general, a residential customer has a 20mm meter, which has the base access charge. Meter sizes increase in size and access charge, the larger meters being 25mm, 32mm, 40mm, 50mm, 80mm, 100mm, 150mm and 200mm.

Whilst at first it appears the aim would be to set a low usage charge to reduce impacts, this is not the case for several reasons. The majority of customers would draw benefit from such a price structure, as residential customers are 90% of our total customer base and consume two-thirds of the water volume produced. However, most customers with larger meters are non-residential customers, that is, businesses being commercial, industrial or agricultural that employ our residential customers. To set a price structure that damaged their operational capabilities could jeopardise those businesses and place employment at risk. These non-residential customers with larger meters generally require them to efficiently obtain the high water volumes required for the operation of their businesses. In a high-use business, there is often not the opportunity to reduce consumption by significant amounts because efficiency has usually already been addressed in order to reduce the operation costs and maximise profits.

Council must consider the viability of its own water supply business and set a price that is not too heavily influenced by weather patterns. Dry years mean higher use and wet years mean lower use. A pricing structure with the

majority of its income based on usage is not preferable to the financial viability of the business as income can vary substantially.

A balance needs to be struck in terms of impact upon our customer groups and a triple bottom line approach (social, economic and environmental) has been taken. Social – the impacts on customer groups and effect on the community as a whole, economic – the scale of customer impacts and the operation of the water supply business, and, environmental - the reduction of wasteful consumption.

To alleviate the broad concern for all customers and to focus warranted concern toward negatively effected customers, the negative and positive impacts on the various customer types has been analysed for each option. The analyses are attached for your information, appearing as detailed assessments for each option and then are summarised with a comparison of options, [\(Appendix B\)](#) will be handed out on the day. A summary of the recommended options impact is given in the Financial Implications.

Financial Implications

Three water-pricing options have been established. The recommended option has an access charge of \$245 and a usage charge of 80c/kl.

There is no overall financial impact, as the new water pricing has been set as revenue neutral, however, the impact per customer type varies. Using the recommended option, the following comparisons result.

- ***low-use residential customers who receive the pension rebate, bill reduction in the order of 30% (use being approximately 100 kl)***
- ***low-use residential customers, bill reduction in the order of 10% (usage is in the range of 180-300 kl)***
- ***high-use residential customers, bill reduction in the order of 5% (usage is in the range of 500-700 kl)***
- ***low-use non-residential customers with 20mm meter, bill reduction in the order of 20% (usage is in the range of 60-100 kl)***
- ***low-use non-residential customers with 25mm meter, bill increase in the order of 20% (use in the range of 60-100 kl)***
- ***medium-use non-residential customers with 40mm meter, bill increase in the order of 50-70% (use in the range of 500-1200 kl)***
- ***high-use non-residential customers with 50mm meter, bill increase in the order of 40-80% if use in the range of 1200-3000 kl***
- ***very high-use non-residential customers with 100mm meter, bill increase in the order of 20% if use in the approximately 200,000 kl***

Customers can influence their bills by separately targeting the access and usage charges. However, there are limitations and the customer needs to find a happy median between their use, their amenity and the resultant cost of that use.

Different customers can influence usage charges differently. Residential customers often have more scope to limit the negative

impact of a two-part pricing system. Unless taking measures to reduce water use, high-use residential customers will pay more under a pay-for-use system as opposed to an allowance system. Although some reduction in water use may be possible for non-residential customers, there is often not as much room for use reduction. For medium to very high use non-residential customers relatively small conservation measures are possible but the bulk of water is a necessary input to the business.

Similarly, access charges are approached differently. If a residential customer has a meter greater than the base 20mm meter they will not gain the full benefit of the two-part pricing structure. That customer would have to weigh the warrant for the larger meter, the cost of reducing their meter size and the time to recover the savings. For example, changing down to a 20mm meter includes disconnect, reconnect and new service charges at a current cost of \$896. A non-residential customer may not be able to review meter sizes at all because that meter size is necessary to achieve the required flow volumes.

Council has the option to lessen negative impacts on high users (mostly businesses) by phasing-in the new pricing structure. For example, the move to the new water pricing could take place over a 3-year period, provided that the phase-in was transparent and clearly communicated to the customers. However, phasing-in or lessening the negative impact upon the high-user would also mean phasing-in or lessening the positive impact on low users. It is recommended that feedback on this issue be sought from these customers during exhibition, via the personal letters proposed in the Information Dissemination Plan.

The Pricing Guidelines strongly recommend that if a water authority is to offer a bill reduction to a customer or sector of the customer base, that the reduction only be considered within the access charge. This type of bill reduction is separate to any initial phase-in at the new pricing structure's introduction. Of course, every 'bill reduction deal' struck would need to be catered for financially and the longer term the duration of the 'deal' and the larger the magnitude of the 'deal', the increased the likelihood of a substantial cross-subsidy. One of the major aims of the Pricing Guidelines is the removal of cross-subsidies and that any remaining cross-subsidies be transparent, that is, the cross-subsidies be disclosed in Council's financial statements. It is recommended that 'bill reduction deals' be minimised in number, magnitude and be limited time wise to a period of 3-5 years.

Council has the option to negotiate a reduced access charge with particular large high-use businesses. It is recommended that feedback be sought from Council's high-use businesses through the personal letters dispatched (as per the Information Dissemination Plan) and Council reconsider this option after financial analysis.

Council can provide Community Service Obligations (CSOs) to non-rateable properties and Council currently has such a scheme in place. There are a small number of non-rateable properties (mostly churches who use relatively small volumes of water) that are charged at half the

rate of occupied properties. That is, instead of an allowance charge of \$412 they are charged \$206. The analyses has maintained this 50% reduction in the access charge but has offered no reduction in the usage charge. This non-rateables customer sector will experience a bill reduction with such a CSO unless the customer substantially increases usage.

There is a potential loss of income for the Water Supply business, due to water conservation. This has been considered in the analyses and can be sustained by utilising the Water Services 'Tariff Equalisation Reserve'.

Director Business Enterprises Recommendation:

That Council:

- 1. adopt Option 1 (\$245 access charge and \$0.80 per kl usage charge) for the purposes of exhibition**
- 2. inform its customers of the proposed new water pricing structure in accordance with the Information Dissemination Plan.**
- 3. consider adoption of Option 1 and implementation on July 1, 2003 following exhibition"**

2003. 370

RESOLVED:

*Moved: Cl. Bowell
Seconded: Cl. Sproule*

That Council:-

- 1 adopt Option 1 for the purposes of exhibition incorporating the following access and kl usage charges:**

<u>connection size</u>	<u>access charge</u>	<u>usage charge</u>
20mm	\$246	80c/kl
25mm	\$383	80c/kl
40mm	\$980	80c/kl
50mm	\$1531	80c/kl
80mm	\$3920	80c/kl
100mm	\$6125	80c/kl
150mm	\$13781	80c/kl
200mm	\$24500	80c/kl

- 2 inform its customers of the proposed new water pricing structure in accordance with the Information Dissemination Plan, incorporating:**
 - a) internal billing to be investigated and implemented as soon as practical.**
 - b) 50% downsizing cost reduction in Year 1 if paid by 30 June 2004.**
- 3 allow for implementation on 1st July 2003.**

2003.371

RESOLVED:

*Moved: Cl. Bowell
Seconded: Cl. Hunt*

That Council consider the requirements of the Guidelines from the Department of Energy and Utilities in regard to water pricing at its budget meeting on 12th May 2003, including consideration of funding allocations required.



LATE BUSINESS – PAYMENT OF RATES AND CHARGES UNDER ABORIGINAL LAND RIGHTS REGULATION 2002.

File R1-2

2003. 372 **RESOLVED:** *Moved: Cl. Bowen*
Seconded: Cl. Bowell

That this matter be dealt with at this meeting as it is deemed by the Mayor to be a matter of great urgency.

2003. 373 **RESOLVED:** *Moved: Cl. Bowen*
Seconded: Cl. Bowell

- 1 That Council contact the Minister for Aboriginal Affairs and the Minister for Local Government asking that the amendments to the Aboriginal Land Rights Regulation 2002 exempting payment of rates and charges on certain Aboriginal lands be withdrawn in view of the social and economic impacts that redistribution of rates and charges will have on the other ratepayers left to provide the same rate income for Councils.
- 2 That Council write to Lgov regarding this matter.
- 3 That Council refer this matter to the Shires Association requesting it be listed at the Shires Association Conference as a late agenda item.



At this stage the Mayor expressed Council's appreciation to Glen Pearson, Anne-Maree Burke and Scott Chapman for the work put into the presentation for the workshop on water pricing.



CONCLUSION:

There being no further business, the Meeting terminated at 1.03pm.