

OFFICERS REPORTS

GENERAL MANAGER

1 FINANCIAL MANAGEMENT POLICY REFORM OF TASMANIA'S WATER AND SEWERAGE SECTOR

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STRATEGIC PLAN REFERENCE:

Goal	3. Environment and Infrastructure To manage the unique nature resources and council infrastructure, ensuring a health and sustainable environment where the community's social, physical and economic well-being is enhanced for present and future generations.
Objective	3.7 Achieve 'best value' in managing Council's infrastructure.

1.0 RECOMMENDATION

"A. *THAT Council, only on the basis that the Treasurer has stated that the status quo in the provision of water and sewerage will not continue, advises the State Government through the Premier and Treasurer that:*

- 1. *Council rejects the option of a single State-wide model.***
- 2. *If there must be structural water and sewerage reform, three regional, local government owned water and sewerage entities is the only model acceptable to the Council, on the conditions that:***
 - (a) *The Cradle Coast Region is able to access the provision of adequate Federal Government grant funding to local government to undertake major capital works projects, which is essential to underpin any reform process and make it affordable to the community; and,***
 - (b) *An additional 11th principle be added to the Treasurer's Principles that Local Government***

regional water and sewerage corporations pay both dividends and equivalent tax payments only to member councils as occurs now for joint bulk water authorities;

(c) *Either;*

(i) *Tasmanian councils need to be left in a financial state that maintains their viability; i.e. there will be no detrimental effects on other council works and community services due to the formation of regional water and sewerage corporations; or*

(ii) *Structural Reform of Tasmanian Councils is implemented in conjunction with any structural reform of the water and sewerage sector;*

And,

(d) *Either;*

(i) *An additional 12th principle be added to the Treasurer's Principles that Local Government regional water and sewerage corporations use pricing principles consistent with National Competition Policy principles; i.e. nodal pricing; or*

(ii) *The use by water and sewerage corporations of pricing principles consistent with National Competition Policy principles; i.e. nodal pricing, be included in the proposed regulatory reform.*

B. *THAT Council authorises the General Manager to negotiate with the State Government the formal recognition of Burnie City Council's unique position in relation:*

1. *The current investment in standards compliant water and sewerage infrastructure; and,*

2. *The current low pricing of water services to its community."*

2.0 SUMMARY

This report further considers the proposed reform of Tasmania's water and sewerage sector and its effects on Burnie City Council's operations and its community. In particular it discusses the Regional Study's assessments and outcomes, and the financial impacts on Council, ratepayers and water and sewerage service consumers.

It cannot be overemphasised that Council's preferred position remains the 'status quo', which Council is willing to reform into a corporate structure through Burnie Water Pty Ltd, in broad alignment with the Treasurer's 10 Principles plus two further Principles. Council will continue to advance the case against the wholesale structural reform for its community and the recommendation is provided only on the basis that State-wide or Regional reform is imposed.

There are at least three drivers that will push the cost of water from a regional or state-wide body from the current \$220 per residential connection to around \$700 per residential connection for water over a three to five year implementation period.

There are also at least three drivers that will push the cost of sewerage services from \$285 per residential connection to around \$600 per residential connection over a three to five year period.

The reforms will result in an overall increase of over \$800 per residential connection over a three to five year period. Water services will increase over 220% and Sewerage services by 110%, being an average increase of 160% for water and sewerage residential connections (from \$505 to \$1,300 per property).

3.0 BACKGROUND

Discussions surrounding the proposed Water and Sewerage Reform announced by the Premier just over 12 months ago have gathered pace in recent weeks. Local Government in Tasmania appears to have accepted the oft spoken mantra that "status quo" delivery of water and sewerage in Tasmania "is not an option."

It is true that Local Government is a "creature" of the state, even though the legislative reforms of 1992 were intended to make Local Government accountable to their community rather than to a Minister of the State

Government. However, it appears those comments were more about rhetoric than substance.

Strong indications have been provided that the State will introduce legislation during 2008 to reform water and sewerage from a structural and regulatory perspective. Councils across Tasmania are coming to accept that change is inevitable. The most likely structural outcomes are the removal of water and sewerage functions from Local Government into either:

1. A State-wide Water and Sewerage Corporation/Authority owned by the State Government as a Government Business Enterprise (GBE);
2. A State-wide Water and Sewerage Corporation/Authority owned in part or in full by the participating councils;
3. A Regional Water & Sewerage Corporation/Authority owned by the State Government as a GBE; or,
4. A Regional Water & Sewerage Corporation/Authority owned in part or in full by the participating councils.

The positioning of councils in the Northern Region to move towards a regional council owned corporation/authority seems to have been motivated by the prospect of achieving significant capital grants to assist in funding new infrastructure during the recent federal election campaign and to ensure that any reform stays under council ownership and control, whereby handsome dividend and tax equivalence regimes are handed back to the council owners.

The move by the Northern Councils has effectively forced the hand of most councils to try and negotiate a position that least impacts their council. Since that time considerable activity and research has been undertaken at a regional level and further meetings have been held with GHD and other regional stakeholders. A further state-wide meeting of General Managers was convened on Tuesday 13 November in Launceston and a meeting of Cradle Coast Mayors occurred on Wednesday 14 November 2007. It is understood that the Southern Councils are becoming more closely aligned to the Northern Tasmanian position paper on Water and Sewerage Reform, in an attempt to stave off a forced State-wide GBE, owned by the State.

All regions are bracing themselves for the expected final onslaught of the State Government who appear destined to create a State owned and State-wide Water and Sewerage business with all dividends going back to the State. These dividend streams will be close to \$50 million per year for the State.

It appears that councils are now setting their sights on the dividend stream that will come from Water & Sewerage regional bodies to prop of their ongoing activity.

The government has told the Mayors of the Cradle Coast region, through the letter from the Treasurer, to 'forget' the bulk regional model (bulk water and treatment plants only, excluding reticulation). Treasury officials have warned General Managers that the absence of an agreed similar Regional Model from all three regions by 30 November 2007 will mean that Treasury will push on with their preference for a State-wide GBE.

Many councils are believing the view of the Treasury Working Party is seeking to create fear that a State-wide GBE will be recommended but with a fall back of achieving three regional council owned authorities.

It appears that Burnie City Council will be a lone voice against any of the reforms, and Council should be cognisant of both the power it holds but also the vulnerability of its position.

Considerable work has now been undertaken that allows Burnie to start forming a view concerning the regional model.

Further applications have been made to federal political parties to assist the capital works backlog, again with little benefit for Burnie or its residents (other than reducing the share of infrastructure creation in other towns, that Burnie residents would have contribute to in a regional body).

The Regional Working Party created by the regional Mayors and General Managers has come to the view that regional integration is easily the best solution for the region, compared with a state-wide solution as a GBE. Notwithstanding the regional outcome, a serious impact will result for Burnie Water and Sewerage users.

The Taskforce has identified ten Principles for Water and Sewerage Reform and invited further submissions to the process by 30 November 2007. Cradle Coast Water (CCW) has provided a submission for the six representative councils of the water authority. The Local Government Association of Tasmania (LGAT) has also provided a submission, together with the northern and southern regions providing separate submissions.

Noting that the State Treasurer has stated that the status quo in the provision of water and sewerage will not continue the LGAT at its General Meeting on 14 November 2007 carried the following motions:

Motion 1

Southern Midlands Council/Waratah-Wynyard Council

That LGAT Advises the State Government that:

- it rejects the option of a single Statewide model.

- if there has to be water and sewerage reform, three regional, Local Government owned water and sewerage entities is the only model acceptable to the Local Government Association of Tasmania.

Motion 2

Meander Valley Council/Central Coast Council

That LGAT actively pursue during and after the Federal election campaign the provision of \$350 million government grant funding to Local Government to undertake major capital works projects, which is essential to underpin any reform process and make it affordable to the community.

Motion 3

Kingborough Council/Glenorchy City Council

An additional 11th principle that Local Government regional water and sewerage authorities/corporations pay both dividends and equivalent tax payments to member councils as occurs now for joint bulk water authorities.

Motion 4

West Tamar Council/Southern Midlands Council

That Tasmanian Councils need to be left in a financial state that maintains their viability i.e. there should be no detrimental effects on other council works and community services due to the formation of regional water and sewerage authorities/corporations.

Motion 5

Circular Head Council/Dorset Council

That representatives from the three regional water and sewerage working groups meet next week to formulate an LGAT submission to the Taskforce.

A working group with representatives from Burnie, Central Coast, Devonport, Waratah-Wynyard and CCW was established in June 2007 by the nine councils in the Cradle Coast Region to consider the following model options:

- A Existing arrangement (status quo) to be used as the base model;
- B Bulk model, whereby councils retain responsibility for water reticulation and sewerage reticulation, with a “bulk entity” as a Regional Water Authority providing bulk water supply and sewage (wastewater) treatment; and

- C Fully integrated model, whereby a fully vertically and horizontally “integrated” water and sewerage entity operating as a Regional Water Authority, responsible for water and sewerage, including bulk water supply and distribution and sewage collection and treatment.

Consultants GHD were commissioned by CCW (representing six of the councils) and the Burnie City Council to assist the working group in this process. The report on findings from the GHD report will be considered as the basis for this report.

The various reform models are evaluated in the Discussion Section of this report.

4.0 POLICY CONSIDERATIONS

At its meeting on 9 October 2007 Council resolved:

"THAT:-

- 1. the information be noted;*
- 2. the on-line and paper petition be sent to the Premier, the Hon. Paul Lennon MHA with a copy to the Treasurer;*
- 3. Council invite the Treasurer, the Hon. Michael Aird MLC, to meet with Council to discuss Water and Sewerage Reform;*
- 4. Council continue to participate in developing regional models with the other Cradle Coast region councils;*
- 5. the comments in this report on the 'Principles for Water and Sewerage Reform', including the two further principles, be sent to the Treasurer and the LGAT; and*
- 6. Council seek approval from the Minister for Council to exercise its enterprise powers under section 21(1) of the Local Government Act 1993 to the transfer Council's water assets to Burnie Water Pty Ltd and request officers to provide a further report on this matter."*

Council officers have awaited the outcome of the regional study before implementing points 5 and 6 of this resolution.

The further principles noted in point 5 were:

1. To provide appropriate financial compensation for Council's loss of net revenue and net assets either directly or through adjusted equity in any reform structure; and,
2. To provide a pricing structure consistent with GPOC principles, such as nodal pricing.

It is still asserted that the first of these further principles should be added (the 12th Principle). Burnie City Council's position is arguably unique in relation to its current infrastructure standard and low cost service provision. Therefore, it is recommended that the second further principle be furthered through direct negotiation with the State Government and the Region's councils, rather than as a 13th Principle.

5.0 FINANCIAL IMPACT

Calculation Basis:

The basis for the calculation of the financial impact of the reform is as follows:

The Burnie Water Supply currently produces 3,200 ML per year and comparatively speaking we do not have significant water users.

Burnie Water Supply	MI	
Total output	3,200	per annum
Less: Used on parks and reserves	400	per annum (estimate)
Net consumed by clients	2,800	
Less: Used by 10 largest users	58	
Net used by 8,175 users	2,742	
Average per user	335	Kl per year

There are about 28,500 water users in other councils throughout the region who use around 344 Kl per domestic connection.

Council raises its water revenue from two sources:

1. Cost per domestic connection \$220 for 7,437 connections; and,
2. Cost based on property AAV (3c/\$AAV) for 738 connections at an average cost of \$1,639 with the highest being \$61,320.

Council raises its sewerage revenue from two sources:

1. Cost per domestic connection \$285 for 7,427 connections; and,
2. Cost based on property AAV (4.5c/\$AAV) for 669 connections at an average cost of \$2,624 with the highest being \$91,980.

Specific Impacts:

Impact 1

The Water Reform Principles will result in a User Pays Two Part Water Pricing regime. This is likely to change the charging for Burnie Water to a supply charge for all properties at say \$150 per property for 7,437, raising \$1,115,550, and the balance charged on actual consumption of 0.63 cents per kilolitre. On present consumption, each property using 335 kilolitres per year would pay around \$211 per year causing a total water bill to be \$361 per year, an increase of 64% on each household with the saving from this increase of \$943,000 going to the 738 commercial and industrial users.

Impact 1a) – A \$141 increase in current water pricing.

The Water and Sewerage Reform Principles will also likely result in a flat fee connection price for all connections to sewerage. This is likely to change the charging for Burnie Sewerage to a supply charge for all properties at \$478 per property for 8,096, raising the same income as the current two tiered charging, an increase of \$193 (68%) per property with a saving to commercial and industrial users of \$1,436,000

Impact 1b) – A \$193 increase in current sewerage pricing.

Impact 2

The transfer of all assets into the new Regional Water Authority will result in the outcome to average the cost of water production from Sheffield and Port Sorell to Smithton and Stanley as one regional base cost of water production. Based on Cradle Coast Water's current cost per kilolitre being 20 cents, 50% greater than Burnie's current average cost of producing water, water production costs for Burnie will increase around \$650,000. This would need to be recovered by an increase in supply charge of \$78 per connection, or an increase in cost of 0.23 cents per kilolitre.

Impact 2 - An overall cost per water connection will increase by a further \$78 to \$439 per year. (An additional 35%)

Impact 3

The transfer of all assets into the new Regional Water Authority will result in the requirement for the new commercial enterprise to meet a target 4% to 7% profit on all water and sewerage assets employed. Currently few Councils (if any) achieve this outcome causing the current underinvestment by many authorities in new and renewed water and sewerage services.

The new authority would need to generate around \$12 - \$13 million in profit on water and sewerage assets to meet this Reform Principle. For Burnie, this is likely to increase overall cost of water and sewerage by an estimated \$3 - \$5 million per year.

Of this increase for Burnie connections, around \$2.2 million will be attributed to Water (\$270 per connection) and \$1 million to sewerage (\$123 per connection).

Overall water cost per connection would increase by \$270 to over \$700 per connection per year.

Overall sewerage cost per connection would increase by \$123 to around \$600 per year.

Impact 3 – A 122% increase in current water pricing, and 43% for sewerage which may come back as dividends to Councils, if not required for other capital outlays in the region.

If all things were equal, Burnie should receive a \$2.5 million dividend per year from its ownership within the new regional water and sewerage authority. However, the impacts 2 and 3 would increase water costs alone by \$2.5 million or \$288 per property, and sewerage by \$1.5 million or \$167 per property.

Impact 4

The removal of 19 water and sewerage staff from Councils overhead apportionment will mean that about \$290,000 worth of Depot staff overheads will not be transferred with the 19 staff to the new authority. However, \$210,000 of the overhead would go across with those staff.

Impact 4a) - Cost for remaining ratepayers to bear \$290,000 per annum.

The removal of water and sewerage operations is likely to result in a further reduction of 3 staff from Technical Services' professionals. Around \$90,000 will not be capable of being covered with the loss of those 3 staff.

Impact 4b) - Cost for remaining ratepayers to bear \$90,000 per annum.

The other financial and administrative services attributed to water and sewerage would need to be eliminated. Currently these allocations are costed at \$135,000 per annum.

The under-recovery of these costs borne by technical services and the depot would also impact the overhead carrying cost by an estimated \$238,000. An ambitious 20% cut in costs will be required across human resources, information management, finance, GIS and IT.

A further 4 staff members will also be forced to be made redundant to achieve these savings. Following these redundancies there would still be a need to absorb around \$100,000 of the finance and administration costs, which cannot be achieved.

Impact 4 c) – Four (4) staff positions lost and the need to find a further \$100,000 in overhead cost savings.

Impact 5

The Council will need to buy its water and sewerage service for its own properties, parks and reserves. This cost is currently hidden in the way the charges are applied. It is estimated that 350–450 Megalitres are used per year and around 75 sewerage connections are utilised.

The cost of buying water will be 450Ml at say \$0.85, \$382,000.

The cost of buying sewerage connections will be 75 at say \$500 per connection, \$37,000.

Impact 5 - Additional cost of \$419,000 to the remaining ratepayers.

Impact 6

Every new subdivision will need to be referred to the Water and Sewerage authority. This will result in costs being attributed to that body to assess those subdivisions and slow the process for approval by some considerable time. Council will not be in charge of water and sewerage priorities as it would be an independent 20% owner only.

Impact 6 – Cost impact not quantified.

Summary and General Rate Impacts:

Impact 1 - Change to Two Part Water Pricing with an increase per property of \$141 for water and \$193 for sewerage, with no overall change to revenues for Council.

Impact 2 - Change to regional average pricing for water with an increase per property of \$78, an overall cost to water connections \$650,000.

Impact 3 - Change to reflect regional returns for water and sewerage assets increasing water costs by \$270 per connection, an overall cost of \$2,200,000 to water connections and \$123 per connection for sewerage, also generating \$1,000,000 for the regional body.

Impact 4 - Change to remaining council operations with loss of 26 staff and additional overheads to carry of \$480,000. **This represents an increase in the General Rate of 4%.**

Impact 5 - Change to Community Service Obligations would add \$419,000 per annum to the general ratepayers. **This represents an increase in the General Rate of a further 3.5%.**

Overall Summary:

Water Connections (8,175)

1.	\$141 Two Part Water pricing	\$943,000 redistributed from Commercial and Industrial consumers
2.	\$ 78. Regional Average Pricing	\$ 650,000
3.	\$270 Commercial Rate of Return	\$2,200,000
Total	\$348 per connection	\$2,850,000

Sewerage Connections (8,096)

1.	\$193 for Sewerage pricing reform	\$1,436,000 redistributed from Commercial and Industrial consumers
2.		
3.	\$123 Commercial Rate of Return	\$1,000,000
Total	\$316.00 per connection	\$1,000,000

General Rates

4.	4.0% Additional Overhead	\$ 480,000
5.	3.5% CSO's New Cost	\$ 419,000
Total	7.5%	\$ 899,000

Council would need to use its dividend from the proposed authority to cover these internal inefficiencies as the first change that it needs to cover. In that manner, it could keep the pressure on its General Rate to a minimum.

The only gains for Burnie City Council would be a potential dividend from a 20% ownership equity in the new Water and Sewerage Authority of around \$2,500,000. The offset of \$899,000, would leave \$1,601,000 available for Council use.

Council would also be debt free under this proposal and the \$1 million to connect water meters to commercial and industrial users would be the responsibility of the new authority.

Council would be under considerable pressure to return the dividend stream to the water and sewerage users, given their substantial hike in costs from \$220 per property to \$665 – a 200% increase.

If a lawful means could be found to pass some of the regional water and sewerage dividend back to water connections, Council will have to use the dividends for the inefficiencies created in the first instance to remove any impact on its General Rate.

Another method would be for Council to assess how to shift some of the rating burden to the 383 commercial and industrial properties that receive the windfall from the introduction of 2 part water pricing and sewerage reform. Basically \$2.379 million will be coming off those properties and transferred onto domestic connections. This would increase the rate differential from the current 2.5 cents in the dollar to 7.5 cents in the dollar to achieve some semblance of the outcomes required.

In addition there will need to be a razor gang attitude to remove costs from current operations to achieve the reduction of 7 staff in the City Offices and a 20% reduction in corporate costs - a daunting thought.

Equity in the Regional Corporation/Authority:

There are three ways of determining the equity position of Burnie City Council:

1. By Asset Valuation method;
2. By Water Connections method; or,
3. By Water Consumption method.

Asset Valuation

Burnie City Council's assets less debt (presuming all debt will go with the assets to the new authority) are around \$100m. The assets of the whole region are assessed to be around \$400 million. Burnie City Council would have a **25%** equity under this method.

As anticipated Asset Values are terribly inconsistent between councils and it would take a new authority around six months to get a consistent valuation to be used in any equity apportionment. Burnie should be well placed under this methodology.

Number of Connections

Burnie has around 8,690 connections and the whole region equivalent is about 50,000. Burnie City Council's equity would be around **17%** under this method. Further work is being done on equivalent connections given the very high users at some Councils; McCains, Simplot, etc.

Consumption Patterns

Burnie at 3,200 ML per annum is around 20% of the regions' consumption.

Summary

Burnie's potential equity therefore ranges from 17% to 25% and most likely around 19 – 20%.

If the new authority dividend stream could all be returned to its owner Councils, Council could expect the following annual dividend:

17%	\$2.2 million and \$1.3 million net of inefficiencies
19%	\$2.5 million and \$1.6 million net of inefficiencies
20%	\$2.6 million and \$1.7 million net of inefficiencies
25%	\$3.5 million and \$2.6 million net of inefficiencies

6.0 DISCUSSION

This section of the report outlines the Regional Study's assessments and outcomes.

Status Quo:

This option is not acceptable to the State Government as a model, and has not been discussed other than for use as a "base model" for use as a

reference for Councils to compare whether or not they are better or worse-off with the alternative reform option models.

The “Status Quo” model would not meet the following critical criteria for reform:

- Does not meet any of the ten (10) principles of water and sewerage reform as specified by the State Government.
- Cannot fund the major infrastructure needs of some Councils without significant Government grants/funding. Single Councils are unlikely to be able to access Federal Government’s Water Fund.
- Cannot achieve efficiencies/economies of scale or the structural efficiencies that can be achieved by a Regional Authority.
- Cannot achieve consistency of service and the elimination of duplication/rationalisation of equipment, etc that can be achieved by a Regional Authority.
- Cannot achieve the attraction and retention of staff that can be achieved by a Regional Authority.

Bulk Model for Water and Sewerage:

In this model Councils retain responsibility for water reticulation and sewerage reticulation, with a “bulk entity” as a Regional Water Authority providing bulk water supply and sewage (wastewater) treatment, similar to the current arrangement with Cradle Coast Water and the provision of treated water to six (6) councils along the north-west coast.

This model is *not* consistent with the principles and options being considered by the State Government.

Similar benefits to the integrated regional model will be realised, however at a reduced economy of scale which translates to reduced benefits of reform.

Fully Integrated Regional Model:

In this model a fully vertically and horizontally “integrated” water and sewerage entity, operating as a Regional Water Authority, responsible for water and sewerage, including bulk water supply and distribution and sewage collection and treatment, would be established.

This will be a \$500M business in terms of assets, with an annual capital works budget of about \$15M for new infrastructure, assuming the proposed ten-year plan is achieved. Hence it will be a significant business for the region. This model and size of authority is similar in terms of asset value, area, population/demographics and likely staff numbers to the rural water authorities in Victoria, which have proved to be both efficient and cost-effective. Hence the regional model has a proven track record. This model is consistent with the principles and the options being considered by the State Government.

This model does provide many benefits including the following:

- Does comply with the 10 principles identified in the State Government document titled “Principles for Water and Sewerage Reform” which identified 10 principles which a single entity or enhanced regional model must comply with.
- Does comply with the issues discussed in the Ministerial Water and Sewerage Task Force Discussion Paper.
- Is of appropriate “size” to fund major infrastructure.
- Likely to be able to attract Federal Government funds (Water Fund).
- Ability to achieve operational and structural efficiencies and eliminate duplication, etc.
- Ability to achieve consistency of service, standards.

Statewide Model:

The Statewide Model ignores regional vagaries (dry east, wet NW), geographic considerations (distances between regions, catchment regions) and the natural/existing cohesion of the north-west region. There is also a risk of less efficient bureaucracy with a much larger Statewide model which may also become political because it is so large with no competitors/comparators within the state.

A Statewide Model will also not generate the natural “ownership” that a regional model is likely to engender.

It is likely that a Statewide Model will not be any more efficient/financially effective than the regional model for the above reasons.

A Statewide model would likely have its head office outside the north-west region. The loss of skills from the region to head office would have a significant impact on the region. The community in which the head office is located would receive significant social and financial benefits with the provision of services to it. These benefits should remain within each region and not just benefit one region alone.

It is important to separate the commercial operations of the new entity from the regulatory operations as this avoids any conflict of interest. Hence a Council owned commercial entity with a State Government controlled regulatory authority would satisfy these important criteria.

With a Statewide/owned entity all profits/dividends would presumably go to the State Government, hence Councils would suffer a significant financial penalty as they would not be able to recover the losses/inefficiencies due to the loss of water and sewerage services.

The Statewide model is also more susceptible to a waste of resources related to regular restructuring which seems to be common to statewide entities as these seem to regularly centralise and decentralise.

Other Drivers/Issues:

In addition to the above drivers for reform, there are a number of other criteria upon which the various reform options can be assessed. These include the following:

- Potential Benefits of Reform
- Ability to Solve Regional Problems
- Impact on Existing Councils
- Social Issues

These “drivers” and the associated criteria issues have been assessed/scored by the Water Reform Working Group.

Some 53 criteria/issues were assessed and scored on a very subjective system of non-compliant (0) to best compliant (10). The average scores were Status Quo (6.5), Bulk Model (8.3), Fully Integrated (8.4) and Statewide (7.4).

Taking into consideration the increased economy of scale which translates to increased benefits of reform, the Fully Integrated Regional Entity is the most suitable model.

The Bulk Model concept may be of use in consideration of transitional arrangements in respect to operational issues such as service agreements in the interim.

It is also noted that the State Treasurer advised during the process that:

"I note that of the three options you have asked your consultant to consider, only Option 3 is consistent with the principles and the options still being considered by the State Government. I encourage you to consider this point when determining how best to focus your consultant's efforts."

Option 3 is the Fully Integrated Regional Entity.

State Government Principles of Water and Sewerage Reform:

The State Government released two documents with the aim to progress Water and Sewerage Reform in Tasmania. These documents are the "Ministerial Water and Sewerage Task Force Discussion Paper" and the "Principles for Water and Sewerage Reform". The former was considered by the Council in the February 2007 report.

The Principles for Water and Sewerage Reform provides a set of requirements, which any businesses involved in the provision of water and sewerage services will need to satisfy. The principles have been considered in the context of the implementation of an Integrated Regional Water and Sewerage Entity as follows:

1. Have the delivery of water and sewerage services as a primary business focus

The development of an integrated regional water and sewerage entity will provide a business of appropriate size and scope to allow direct focus on water and sewerage operations. Conflicting business requirements are significantly less likely to occur for a primary focussed entity than in a local Council situation where reduced resources and a multitude of other Council issues make a primary focus on water and sewerage service impossible.

2. Have an expert and independent board appointed for its commercial and technical expertise through a formal and transparent process involving consultation between the business(es) owner(s) and the Treasurer

It is agreed that this is a sensible approach and will ensure a cost effective operation and that debate at Board level would be argued from a professional point of view as distinct from a parochial one that could occur with political appointees.

The role of the Treasurer would need to be clearly defined to ensure that the interests of the region and owner Councils are protected.

3. *Be run as a commercial entity(s) and be established as a Government owned company(s) that complies with Australian Corporations Law and enabling legislation*

This will meet the COAG requirements and also help achieve a cost effective service to ensure that dividends are returned to the owner Councils. The new entity is to be owned by the local Councils i.e. owned by Local Government, not the State Government.

4. *Operate under formal arrangement that ensure appropriate and workable governance and reporting, including providing a clear mechanism for the shareholder(s) to clearly and unambiguously provide guidance to the Board on matters that fall beyond the defined scope of the Board*

An integrated regional water and sewerage entity will be of adequate size to attract and engage an expert board possessing a wide range of technical and strategic skills and experiences. The board will be the key driver of the business and its selection and operation will be critical to the success of any reformed entity.

The corporate structure of the entity will determine the effectiveness of strategic, corporate and operational management. In line with the State Governments requirements it is suggested that an integrated regional water and sewerage entity be developed as a corporation's law entity in the form of a company model. The company model, as described in the Department of Treasury and Finance Government Business enterprise (GBE) Corporate Principles, would consist of an independent Board and Councils as owner shareholders. The Company model is similar to a Joint Authority model however provides corporate veil distinction between board and shareholders.

The structure of the new entity would include the capability for the owners (Councils) to direct the Board to undertake tasks outside the defined scope of the Board e.g. non-commercial activities such as community service obligations (CSO's) etc.

A further benefit of this structure is it eliminates the possible conflict of interest, which would potentially exist if a state owned entity was implemented and was then subsequently state regulated, as the commercial operations are completely separate from the regulatory responsibility.

It will be necessary that the structure, operation and governance of the new entity be developed in a collaborative process involving all stakeholders.

5. ***Have the organisational, management and technical capacity to appropriately respond to significantly enhanced economic and technical regulatory framework (including the ability to comply with relevant health, water management, environment, pricing regulation and National Water initiative reporting obligations)***

The proposed north-west regional authority would be very similar in area, population, water volume, asset value, demographics, etc to many of the Victorian country water authorities which have operated over the past 10 years or so, which have proven to be cost effective. It is understood that these Victorian Water Authorities are used by water authorities in other states for benchmarking of performance.

6. ***Have the organisational and management capability to appropriately manage transitional and operational business activities (including strategic asset management and works management, core support system functionality, and transitional industrial relations and change management issues)***

It is expected that a new integrated regional water and sewerage entity will have the resource and skills capacity to facilitate the management of enhanced operational frameworks. The regional entity will also allow integrated implementation of applicable requirements.

It is important to note when discussing regulatory frameworks that the proposed ten-year capital investment program for the North West Councils has been based on the premise that no significant changes to current regulatory requirements (specifically discharge requirements and potable water quality requirements) are expected in this period (next ten years).

One of the critical issues in implementing reform will be the management of the transitional period. Key to this issue is the retention of existing staff and knowledge, attraction of new staff with specific skills and the development of staff to drive the new entity. Cradle Coast Water and Councils have in place existing management and operational systems to be able to manage the business transitional and operational tasks. Staff transferring from the regional Councils will likely be familiar with existing systems as there has been a close working relationship between CCW and the regional councils for many years. Grouping of all these staff with a common interest in “water” into a single group will enable this interest and the business to “blossom”. A new integrated regional water and sewerage entity should be well placed to facilitate the transitional and operational business activities due to the existing common interest/knowledge of CCW and local Council

staff, the significant size of the new entity, the extensive and sustained capital works program and the special environment/standard of living of the north west coast of Tasmania.

It is a reasonable argument to suggest that a Statewide entity could potentially lead to:

- a loss of experienced resources and system/operational knowledge in the short term,
- a loss of skill to the region in the longer term.

7. Based on an appropriate and formalised dividend policy, have the appropriate balance sheet, profit and loss and cash-flow strength to enable access to debt funding to the level required to support required investment and to fund all business activities on a sustainable basis

A new integrated regional water and sewerage entity would have a current combined written down asset value in the order of \$500 million. In reality the asset value will be greater as most valuations are not current and also do not reflect recent construction cost increases. This combined asset value will provide a lending base of sufficient order to fund the ten-year capital investment program with only a moderate rate increase.

In addition to funding investment, the entity would be required to fund all business activities on a sustainable basis and provide Council owner shareholders a commercially competitive dividend. Based on the financial information provided by CCW and the Councils it is clear that the new entity would be able to fund the new capital and refurbishment works as identified in the ten (10) year investment plan, and provide the owner of owners councils with a reasonable dividend to compensate for their increased operating costs, without significant rate increases-although an injection of funds would be necessary over the initial period to keep rate increases to about CPI (about 5% PA).

A new larger regional authority will achieve some operational efficiencies and will also provide some structural efficiencies by rationalising some services and removing service duplication.

It is also acknowledged that, in order to fund the construction of significant infrastructure in some (smaller) areas e.g. Queenstown, it will be necessary for the larger regional areas to “cross subsidise” these smaller areas, otherwise it will not be possible to overcome the infrastructure funding difficulties faced by these smaller communities. This will be one of the major benefits of a regional scheme over the current system. Cross subsidies will also be more “acceptable” politically if they are kept within the region rather than a State-wide situation.

8. ***Be capable of managing the transfer of all existing water and sewerage services and functions and associated assets and liabilities of relevant bulk water authorities and relevant local government to the new business or businesses in the shortest practical timeframe but within a period not exceeding three years from operational commencement, targeted for early 2009***

Tasmania tends to operate naturally in three (3) regions due to geographical constraints, being the south, the north and the north-west. Each region has major urban centres, ports, airports and industrial/agricultural focuses. There are a number of working examples of the north-west area working effectively as a region includes the Cradle Coast Authority, Cradle Coast Water, the Dulverton Regional Waste Management Authority and the Natural Resource Management organisation.

This is not expected to be a difficult task for a north-west regional entity as CCW and the local councils have had a closed working relationship since CCW was established. CCW is owned by most of the regional councils, and CCW provides other services to some Councils currently. All staff live in the region and many mix socially. It is expected that the transfer/transition will be reasonably straight forward-certainly much less difficult than to a State-wide entity where many staff would relocate out of the region.

9. ***Be capable of managing the transfer of all existing water and sewerage employees of the bulk water authorities and local government to the new business(es) on a no-detriment basis***

As per principles 5 & 6 transition management is a critical issue in the implementation of any reform entity. The implementation of a new entity must also consider potential impacts upon Councils relinquishing management of water and sewerage infrastructure and operations, such as the implementation of a fair and equitable system of allocating dividends and tax equivalents to Council owner shareholders is essential.

In reality there is likely to be some adverse impact/in-efficiencies on some Councils in the short term due to issues such as fixed overheads being spread over a smaller workforce, larger works depots than now needed, services to Council owner properties and CSO's, etc. Some Councils also use water and sewerage rates to assist in the provision of other services. Provided Councils receive sufficient dividends to match the "profit/gross margin" provided by water and sewerage services the majority of Councils will be no "worse-off".

As discussed in principle 8 above the transfer of existing employees to the new local regional entity will be a very much simpler process than the transfer to a remote State-wide entity. Every effort will be made to retain the existing local water and sewerage staff as it will be crucial for the effective operation of the new entity that existing staff/knowledge is retained. It is likely that many staff would not transfer to a remote State-wide entity. The objective would be to achieve a “seamless” transition from the existing entities to the new entity. This will much more likely for a regional entity than to a State-wide entity.

It is likely that the changes can be managed in a way that will minimise any adverse impacts to Councils.

This issue will be the same for a regional or a state-wide authority and is likely to be more accepted for a regional model as the benefits of a regional model will be much more apparent/obvious and the local councils will have more “ownership” of a regional authority. The “profits” generated by the new entity will remain in the region and “reward” those Councils that have managed their water and sewerage infrastructure wisely in the past.

10. Be of sufficient scale to attract and retain high calibre staff and to provide for their ongoing training, skills enhancement and development needs

CCW and Councils have existing systems, training programs, etc which can be readily applied /adapted to meet the ongoing training, skills enhancement and development needs of staff. Some additional facilities will need to be provided as the entity grows over the transition period, however the new entity is likely to be of sufficient scale and have most of the services and systems, etc. necessary to retain existing staff and attract new high calibre staff.

The ten (10) year investment program of about \$200M is also likely to be of sufficient scale to retain and attract new high calibre staff. The beauty and quality-of-life of the north-west coast is also likely to retain and attract staff. It is acknowledged that there is a skills shortage in these areas, hence the likelihood of attracting new staff to the new enhanced entity will be easier than is the case for the existing entity. Due to the skills shortage it is crucial that existing staff are retained. A new regional entity will have a much higher likelihood of retaining existing staff than a remote Statewide entity.

The Victorian water reform experience for rural/regional entities has been that they were able to both retain existing staff and attract new high calibre staff.

Capital Investment Program:

One of the tasks of the GHD commission was to identify and estimate the cost of refurbishment/replacement and new capital works required by the region over the next ten (10) years in order to meet current statutory drinking water and sewerage emission limit standards. This would assist in identifying the extent of works required to be undertaken by a new authority.

Each Council has nominated their planned refurbishment works and new infrastructure requirements for the next 10 years.

GHD has also discussed other known “short-comings/problems” of water and sewerage infrastructure with each Council and CCW. This included single council issues and also “structural infrastructure” projects which would result in service efficiencies if a regional authority was established. An example is the Burnie to Somerset water supply link which would enable Somerset/Wynyard to be supplied with treated water from the Burnie WTP, which would enable the Cam WTP to be “moth-balled”. These projects have been added to the list.

The ten year capital works program identified will cost in excess of \$205M. This amount includes about \$55M for the refurbishment of existing water and sewerage infrastructure, \$63M for water treatment, \$9M for water reticulation systems, \$53M for sewerage treatment and \$25M for sewerage reticulation systems.

The required water and sewerage services will augment existing infrastructure throughout the region as well as providing services to a number of areas/developments where services do not exist, thereby overcoming existing health and environmental problems. It will also encourage further development, including tourism, and the attraction of “water needy” industries to the north-west region as this is one of the few areas in Australia where water is not scarce. Water infrastructure, including drinking water supply and sewage treatment, is likely to be a major driver for the attraction of significant development in the north west region of Tasmania.

Many of these projects are not able to be delivered in isolation/by single councils or without significant financial assistance, hence a strong regional water and sewerage authority is crucial in helping realise this growth/development potential.

This list has been considered by the Water and Sewerage Reform Working Group who have prepared a consolidated list into the Ten Year Capital Investment Program as follows:

Table 1 Future Capital Works

Project	Value (\$M)
Burnie Council	
– Burnie WTP Upgrade	\$ 0.72M
– Burnie Sewerage Reticulation	\$ 6.00M
Central Coast Council	
– Ulverstone WWTP Upgrade	\$ 5.15M
– Forth to Gawler water supply link	\$ 8.90M
– Turners Beach trunk water main	\$ 0.25M
Circular Head Council	
– Arthur River Sewerage	\$ 0.20M
– Smithton WWTP Upgrade	\$ 6.20M
– Water and Sewerage to Coastal Settlements	\$ 4.00M
Devonport Council	
– Treated water to Spreyton/Melrose area	\$ 6.23M
– Devonport WWTP Upgrade	\$ 12.75M
Kentish Council	
– Sheffield and Railton WWTP upgrades	\$ 0.50M
King Island Council	
– Water and sewerage upgrades	\$ 0.40M
Latrobe Council	
– Wesley Vale Reservoir	\$ 1.00M
– Port Sorrell WWTP upgrade and reuse	\$ 1.72M
– Latrobe Sewerage upgrade	\$ 2.47M
Waratah-Wynyard Council	
– Boat Harbour/Sisters Beach water supply	\$ 8.90M
– Waratah WTP	\$ 0.50M
– Yolla WTP	\$ 0.25M
– Burnie to Somerset water supply link	\$ 2.90M
– Wynyard WWTP Upgrade	\$ 2.40M
– Somerset WWTP Upgrade	\$ 3.00M
West Coast Council	

Project	Value (\$M)
– Queenstown Water Scheme	\$ 7.90M
– Strahan water reservoir	\$ 0.25M
– Tullah WTP	\$ 0.35M
– Rosebery WTP	\$ 0.50M
– Strahan WWTP upgrade	\$ 0.30M
Regional Projects	
– Regional Biosolids Treatment/Reuse	\$ 10.0M
– Telemetry System	\$ 3.00M
– Information System	\$ 1.00M
– Drainage separation/infiltration reduction	\$ 4.00M

The total estimated cost is just over \$100M and has been and could continue to be used to seek Federal Government Funding for the reform process.

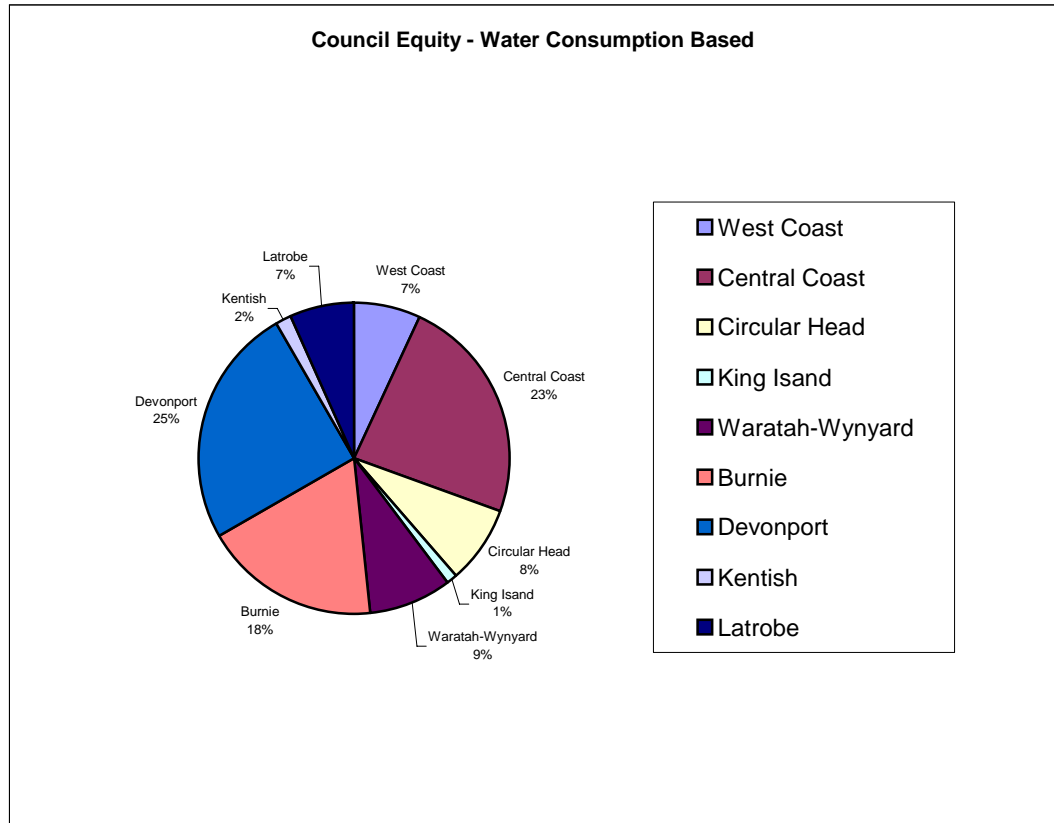
New Regional Water and Sewerage Authority:

It has been assumed that the new regional authority will comprise the water and sewerage assets (and debts) of the nine north-west Councils, together with CCW. The authority would be owned by the nine Councils, who would receive the profits/dividends in proportion to ownership/equity.

Equity should be based on the asset value less debt.

The asset valuation (written-down/fair value) of assets has been provided by the individual Councils, however in order to provide a consistent “base” upon which to base the equity apportionment, all assets would need to be re-valued. Currently the valuation dates and standards appear to vary from council to council, so the preliminary financial dividend estimates for the various reform models have been based on water consumption as directed by the Working Group. The equity of each council based on water consumption is shown in Figure 1 below.

Figure 1 Water Consumption Based Council Equity



Councils’ Comments on Proposed Regional Authority:

In discussions with Council officers, a number of issues were raised with respect to a new regional water and sewerage authority. Potential problems raised by Councils included the following issues:

- Due to the likelihood of a centralised regional office/depot, all the more “remote” Councils expressed concern over the ability of the new authority to respond to break-downs/faults, etc in a timely manner. (This issue will be managed by the new entity maintaining permanent operations in a number of locations in order to be able to deal with operational issues in a timely manner.)
- Inefficiencies, as many Councils use the same staff for both sewerage and stormwater collection/pipe-work tasks as the skills necessary are very similar.
- Possible dis-economies of scale as it does not always follow that a larger entity is more efficient.
- Some adverse financial impacts to Council even though water and sewerage staff and current debt would transfer to the new authority. These may include issues such as:
 - not all staff would transfer

- larger and more expensive works depots than necessary for future activities
- general municipal fixed overheads will need to be “spread” over fewer staff, hence less over-all efficient
- no longer “free” water and sewerage services to Council facilities. (The current services are not actually “free” but are costed into the “paid” rates, however Council will no longer be able to manage this cost in this way.)
- size and cost of Community Service Obligations.
- the cost of possible internal restructuring.

Potential benefits included the following:

- Some smaller councils struggle to be able to afford/provide water and sewerage services, particularly those with many small towns. Some of these Councils welcomed the idea of a separate authority to be responsible for this service.
- The ability to be able to fund major new infrastructure, which is beyond the capacity of an individual council. This is not necessarily due to poor management/planning but more related to issues such as the take-over of old infrastructure from mines or the impact of very large short-term tourist numbers. An example is Queenstown water, which is very old infrastructure, inherited from mining operations. Another example is coastal shack sites where sewage disposal is causing environmental harm, but the cost of providing effective collection and treatment is prohibitive for individual Councils.
- Structural and operational efficiencies.
- Consistency of service.
- Need for regional bio-solids treatment/disposal facility.

Other Issues:

The brief requested consideration of a number of other issues concerning Councils, which will impact on water and sewerage reform including irrigation, drainage, human and social impacts and governance.

These issues are discussed below.

Irrigation

There are synergies between water supply and irrigation, particularly when building new dams and pipelines which can service both sectors.

The broad scale irrigation of agricultural land is controlled by the Rivers Commission and is not of direct concern of Councils/Water entities. Currently CCW provide untreated water to some clients from the Palooona Water Supply System and they are looking to provide these customers with

treated water, hence the Paloona supply would be available for other uses including irrigation. CCW also provide surplus water into farmer's dams and storages adjacent their trunk water mains during off-peak periods. This provides security to farmers for additional cropping.

CCW are also involved in the Sassafras – Wesley Vale Irrigation Project which involves diverting surplus high-surety water via the existing Australian Paper pipeline from the Mersey River into the Sassafras – Wesley Vale areas, providing reliable irrigation infrastructure and reducing the environmental impact on the water resources of the Panatana catchment.

These projects and others can “dove-tail” into the regions water infrastructure in a cost-effective manner to significantly aid the growth and sustainability of the north- west region of Tasmania and generate greater profits for the new entity and the owner Councils.

Treated effluent re-use is also a significant potential resource which needs to be maximised as it will provide a benefit to agriculture or industry as well as providing environmental improvements to the current receiving waters.

Maximising the use of existing under-utilised infrastructure, or extending/upgrading existing infrastructure/resources may enable the new entity to generate significant additional profits and minimum cost, as well as providing development/growth opportunities to the region.

Drainage

There are some operational issues regarding the separation of sewerage and stormwater systems. Currently where both services are under the control of Councils and the issue of stormwater inflow/infiltration (I/I) into the sewerage system is easily managed. However this will be more difficult if/when the two services are controlled by separate entities.

This issue can be managed and is the “normal” situation for most of Australia where Councils manage stormwater and the water authority manages the sewerage system. In reality it may tend to focus more attention on the I/I issue as the water authority will be looking to minimise sewerage collection and treatment costs and providing system efficiencies. The issue of cost sharing will obviously need to be resolved.

The other issue with the separation of stormwater and sewerage services is that generally the same Council workforce would operate and maintain the stormwater and sewerage systems as the skills required are very similar. This separation is likely to create some operational inefficiencies within Councils, at least in the shorter term until some restructuring occurs. Provided the transition period is not too short the restructure should be able to be managed to minimise the cost impact to Councils.

Human and Social Impacts

During the course of this commission GHD have met with Council Officers from each Council to discuss the issues of reform including human and social impacts.

The main issues of concern to the officers spoken to regarding human and social issues were loss of employment to smaller towns and the level of service provided by a “remote” entity. This was less of an issue for a regional entity than a State-wide entity, and could be largely resolved by maintaining a local workforce in the more remote locations e.g. King Island, West Coast and possibly Circular Head.

Local employment was an issue, but this impact would be mitigated to some degree for a regional entity.

The future capital and refurbishment infrastructure program of a regional entity will also be of significant economic and social benefit to the region.

Governance

Governance would need to comply with the requirements as set-out in the document titled “Principles for Water and Sewerage Reform”. This would require the establishment of the following components:

- an expert and independent board appointed for its commercial and technical expertise.
- be run as a commercial entity and comply with the Australian Corporations Law
- have appropriate organisational, management and technical capacity.

In order to minimise the adverse impact of the loss of water and sewerage services on the effected Councils, the entity would need to be owned by the nine (9) regional Councils who would receive dividends in accordance to their equity stake.

The above governance system would enable the new entity to meet the criteria established by the State Government, COAG and the other drivers for water reform.

Future Issues:

Key issues to be given further attention include:

- Revaluation of water and sewerage assets of all councils and Cradle Coast Water on a consistent basis.

- Identification of the extent to which the first year transition costs will be experienced in the second and subsequent years, after the Authority is fully established.
- Completion of detailed financial/organisational assessments of the implications of asset transfers for specific Council viability/sustainability.
- Identification of the possible size of financial assistance/support to be given to individual Councils during the transition period of the new Authority.
- Estimation of the likely annual tariff revisions to be introduced on a location-by-location basis.
- Identification of specific technical advisory/training needs on a plant-by-plant basis, to begin to achieve operational efficiency gains.
- Prioritisation of the capital investment program to be introduced by the new Authority, and the extent to which additional debt servicing will be required.

Consultation:

The LGAT has prepared a submission on behalf of all councils.

CCW has also provided a submission on behalf of representative councils.

Public consultation will be required in the process in order to explain the water and sewerage reform process and likely outcomes to the community.

Impact on Resources:

Financial Performance of the Fully Integrated Model

Financial assessment has been undertaken to provide an indication of financial impacts that may occur as an outcome of the fully integrated model. This assessment has been based as a comparison with current performance of individual councils and CCW. It is important that the following aspects are addressed:

- The long-term financial sustainability of the new entity.
- The transition impacts on the participating councils, particularly with regard to financial impacts associated with loss of water and wastewater revenues and losses/changes in staffing from the formation of the new entity.

The basis of the financial assessment for the fully integrated model is as follows:

- Estimate the average existing water and sewerage rate for the region.

- Assess how this rate will be impacted by the 10 year investment program.. (These works will be required regardless of the model adopted).
- Provide a dividend back to the owner councils to compensate them generally for loss of revenues/inefficiencies due to the loss of providing water and sewerage services.
- Assess how the rate increase can be limited to an ‘acceptable’ annual increase (say about 5% per annum i.e. about CPI).

The annual expenditure for new capital works and the refurbishment of existing infrastructure is about \$20.5M per year. In order to limit rate increases to about 5% per year, to complete the 10 year Plan and to compensate councils, a significant injection of funding will be necessary over this period. If there is no injection of funds; an immediate rate increase of about 35% will be required. Assuming the same criteria is applied, this situation will be expected to be higher for a State-wide entity. In reality the situation is likely to be worse if a statewide entity is adopted because it would appear that the infrastructure needs will be proportionally greater in the northern and southern regions.

The current average rate for water and sewerage is about \$725 per year.

There will be need to be an initial levelling out of water and sewerage charges across the region with an integrated water and sewerage authority and future increases in charges to meet pricing and funding requirements. This will be further complicated by two part water pricing across the region. Adjustments will need to be phased in over the transition period.

Water and sewerage averages 23% of total council business in the region and therefore any changes will be significant. The specific financial impacts of the proposed reform model are detailed in the Financial Impacts section of this report.

Transitional Costs and Issues:

It is not clear how the transition of water and sewerage assets from Council to the new entities will occur, however the Treasurer has indicated that the transition period would be about three years and that the State Government would provide some funding, presumably to assist in the setting-up of the new entities.

Legislation will also need to be enacted to transfer the assets (and debts) from councils to the new entities.

In the north-west region it is likely that a new centralised administration and operations centre would need to be provided as the existing CCW centre would not be adequate for the new entity.

The staff numbers engaged in water and sewerage services at Councils are estimated at about 116 in a total local government workforce of 867 for the region. Most of the engineering and works staff are expected to transfer to the new entity. Together with existing CCW staff, and some other strategic staff needed for the larger entity, total staff numbers of about 130 is predicted. The new entity would establish depots at a number of locations in the region and local permanent teams at these depots in order to avoid response delays to break-downs and emergencies.

Impact on councils and management with increased workload just by consideration of the process of possible reform needs to be taken into account in respect of day to day operations. Staff will handle the change in various ways but the process creates an uncertainty. Many of the Council's staff are long-term employees who have made a career in local government. Some will not be concerned, others will see it as a challenge, and some may opt out of local government or the water/sewerage sector.

The latter could be a real issue in the reform process but is considered a lesser risk under a regional authority provided the transition is planned by the councils and CCW.

Following the establishment of a fully integrated regional entity, which would be responsible for all water and sewerage functions on behalf of all nine (9) North West Regional councils, it is expected that the new Authority will generate significant financial benefits. These benefits would be distributed to all of the councils as dividend payments. At issue is how to reconcile likely financial gains derived from increases in tariffs (allowing for increased returns on assets), with the anticipated financial costs for each council, associated with the transfer of all water and sewerage assets, and the subsequent restructuring of the individual councils.

7.0 RISK

The likely structural reform and water and sewerage is one of the most significant risks to the future viability of Council and indeed to Local Government in Tasmania.

The assumption in the regional (and other) studies that the councils as owners will receive dividends is highly suspect. This can only occur if:

- Sufficient grant funds are received to fund the capital expenditure backlog identified; and,
- The State Government agrees to not impose a tax equivalence regime or State dividend policy.

It remains the view of Council that structural reform of Local Government in Tasmania; that is, amalgamation, will follow any significant water and sewerage reform.

8.0 CONSULTATION

Council has responsibly participated in the Regional Study and continues to work the region's councils, Local Government in Tasmania and the State Government to achieve the best outcome for the Burnie community.

The Following Motion Was Carried Unanimously

"A. THAT Council, only on the basis that the Treasurer has stated that the status quo in the provision of water and sewerage will not continue, advises the State Government through the Premier and Treasurer that:

- 1. Council rejects the option of a single State-wide model.**
- 2. If there must be structural water and sewerage reform, three regional, local government owned water and sewerage entities is the only model acceptable to the Council, on the conditions that:**
 - (a) The Cradle Coast Region is able to access the provision of adequate Federal Government grant funding to local government to undertake major capital works projects, which is essential to underpin any reform process and make it affordable to the community; and,**

- (b) *An additional 11th principle be added to the Treasurer's Principles that Local Government regional water and sewerage corporations pay both dividends and equivalent tax payments only to member councils as occurs now for joint bulk water authorities;*
- (c) *Structural Reform of Tasmanian Councils is implemented in conjunction with any structural reform of the water and sewerage sector; and*
- (d) *An additional 12th principle be added to the Treasurer's Principles that Local Government regional water and sewerage corporations use pricing principles consistent with National Competition Policy principles; i.e. nodal pricing.*

B. *THAT Council authorises the General Manager to negotiate with the State Government the formal recognition of Burnie City Council's unique position in relation:*

1. *The current investment in standards compliant water and sewerage infrastructure; and,*
2. *The current low pricing of water services to its community."*