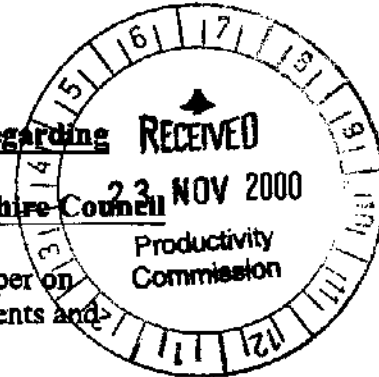


079381192

670

**Submission to the Productivity Commission Regarding****Cost Recovery on Services provided by the Mount Morgan Shire Council**

The Mount Morgan Shire Council respectfully submits the following paper on council's attitude to full cost recovery on services it provides to its residents and ratepayers.

The Mount Morgan Shire Council as a small local authority with few activities which could be regarded as being in competition with the private sector.

However the provision of a water service to the residents of the shire is of utmost priority to the current council. To this end, it is the policy of the current council to proceed with a user pays water-funded program in the financial year 2002-2003. Council considers a user pays approach the most equitable system for the collection of revenue from water supply.

Obviously the process of changing the current two-part tariff system to a user pays consumption based system cannot be completed in a single year given the constraints placed on council resources.

Council has a three year program for the enactment of a user pays system and a further 2 year bedding down program to gradually reduce the water base charge to a consumption charge.

During the current year 2000-2001 council will be reviewing its job costing system and its integration with general ledger.

As a consequence of this council will be looking at a more realistic allocation of overheads and the inclusion of estimated tax equivalents, particularly in the water services area. Council will also be undertaking an exercise to determine its cost of capital and including it in any costing exercise. This will also provide information to conduct a more efficient water activity.

The following year 2001-2002 will see the overhead allocations being properly exercised and at the end of that year the true costs of the services will be known.

The following year will see the introduction of the first user pays system, however as the shire is heavily dependent on rate revenue and usage figures under the new system will only be an estimate, it is envisaged a gradual reduction in the old base charge. This will be implemented over a three-year period to align the rate charge derived with consumption, to achieve the target revenue.

Council policy in this regard highlights two issues it considers relevant.

Firstly without the national competition policy package offered by the state government the introduction of full cost pricing and user pays system would impose considerable cost and time constraints on council and its staff. This in an area where no competition with the private sector exists, or is likely to exist in the mid-term. However it is a more complex system and as such requires higher skill levels by the staff using it and also more time to maintain the costing. As such ongoing funds are not available only setup costs.

079381192

Secondly the implications of the user pay system on revenue estimates, which are based on some prediction of usage given a certain price level. The initial usage levels set will depend in part on demand functions derived from previous two part tariff rates, which are no longer applicable.

Compounding this problem is the fact that a shire heavily dependant on rate revenue, such as the Mount Morgan Shire Council may become exposed financially if the demand functions forecasted vary considerably from the actual demand function.