

Inquiry into Australia's Urban Water Sector
Productivity Commission
Locked Bag 2, Collins Street East,
Melbourne VIC 8003

Att: Ms Carole Gardner

Dear Ms Gardner

**RE: SUBMISSION TO AUSTRALIAN GOVERNMENT PRODUCTIVITY COMMISSION
DRAFT REPORT – AUSTRALIA’S URBAN WATER SECTOR**

Council considered the Australian Government Productivity Commission Draft Report – Australia’s Urban Water Sector at its 9 May 2010 meeting and resolved the following.

‘That Council make a submission effectively agreeing with the majority of the Commission’s findings and positively advocating a local government corporate model for the Riverina should changes be made to the existing County Council model.’

Council in its deliberations particularly considered Chapter 13 – Reform in Regional Areas and its indication that the final report will favour aggregation of smaller water authorities based on the corporate model.

As a general proposition Council has to date agreed with this and with the logic that is used in the report that leads the Commission to ultimately agree with Armstrong and Gellatly (*Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW*) that the corporate model is ‘widely accepted as the best practice business model for commercial undertakings’ and conclude that ‘a corporate model is preferable to a county council.’ (p 414)

The Draft Report seems to say that council owned corporations would be preferable as assets and dividends would remain with councils and makes the point that councils must be compensated for the loss of water and sewer assets and income by

dividends regardless of whatever structure is created. This lack of compensation is pointed out as a major fault with County Councils, which effectively take assets without compensation.

The Draft Report also seems to dismiss both voluntary and mandatory alliances as problematic and unreliable in the long term. Council agrees with this sentiment and would cite the failed Armidale Dumaresq-Guyra-Uralla-Walcha Strategic Alliance.

The Draft Report clearly favours a professional board divorced from politics at any level as a governance structure and Council agrees with this position in relation to the governance of a water authority which in reality operates as a simple corporate commodity provider.

The Draft Report does make the point that a one size fits all approach is not justified and that the full affect on the existing structures must be taken into account in any aggregation and that Regional water utilities face diverse supply and demand circumstances and are subject to wide-ranging governance and institutional arrangements.

The Draft Report therefore agrees with Armstrong and Gellatly, Victoria and Tasmania regarding the need for minimal size (>10,000 connections), budget (>\$10M) and incorporation of a regional city being requirements for the success of each aggregated entity. This was a point that did not fit the Goldenfields Water County Council (GWCC) proposals in the Armstrong and Gellatly report, but that did fit within this Council's council owned regional water corporation proposal. (Council's submission and response to Armstrong and Gellatly report attached)

The Draft Report makes it plain that the Commission believes there is scope to achieve material efficiency gains via aggregation of water utilities in regional New South Wales and suggests that the State Government, in consultation with Local Governments and affected communities, should determine the precise approach to water reform in NSW, including the appropriate size, boundaries, composition and organisational structure of utilities. The Commission emphasises that in undertaking this work, the NSW Government should take explicit account of all costs and benefits including the impact on network operating costs, water system planning and resource management, and local communities (and employment). Council fully agrees with this sentiment.

The Commission acknowledges that NSW has made significant progress toward regional water reform, via the Armstrong and Gellatly report, and states that it is critical that the findings of this work are now drawn upon to develop a reform program. The Commission endorses the majority of the recommendations of the Armstrong and Gellatly report.

Council also endorses the majority of the recommendations of the Armstrong and Gellatly report but does not agree with the proposal to effectively separate water and sewer operations into two distinct units, water to a County Council model and sewer to an alliance model.

Council does not accept the Armstrong and Gellatly report proposals for the Riverina area as these appear to:

1. entrench two separate adequate but far from ideal water supply systems – GWCC and Riverina Water County Council (RWCC)
2. create two separate sewer alliances based on the councils within GWCC and RWCC
3. remove the effective control and decision making power over sewerage from councils
4. place an additional financial burden on sewer customers without any obvious increase in service provision

The options proposed for the Riverina are not considered to be either beneficial to the residents of the Riverina or viable in the long term. Council believes that rather than resulting in a sensible and viable water supply and sewerage management system, adequate for the next 50 years, this proposal creates an increasingly complex and compromised system.

Council believes that to create a system that would be viable in the long-term water and sewer must be treated as two parts of the same water cycle management system and not be separated. The Armstrong and Gellatly report makes it plain that water and sewer should be combined by proposing Water and Sewer Alliances in most other areas of NSW.

Council continues to believe that a council-owned corporation model remains the best long term solution and would, if possible, remain Councils preferred model.

Yours faithfully

Ken Trethewey
General Manager

16 May 2011

**SUBMISSION
TO THE INQUIRY INTO
SECURE AND SUSTAINABLE URBAN
WATER SUPPLY AND SEWERAGE
SERVICES
FOR NON-METROPOLITAN NSW**

COOTAMUNDRA SHIRE COUNCIL

April 2008

ORGANISATION NAME: Cootamundra Shire Council

CONTACT NAME: Ken Trethewey

POSITION: General Manager

CONTACT PHONE: 0269402112

SUBMISSION AUTHORISED BY: Cootamundra Shire Council

EXECUTIVE SUMMARY

Cootamundra Shire Council proposes the development of a Corporate Structure to undertake all Water and Sewer supply operations within the present areas covered by the Riverina Regional Organisation of Councils (REROC), Goldenfields Water County Council (GWCC), Riverina Water County Council (RWCC), Young Shire and Harden Shire, based on the following:

- The development of a Proprietary Limited Liability Company under Commonwealth legislation.
- The shareholders being limited to the General Purpose Councils within the defined area only.
- The Company being operated on a fully commercial basis.
- The Company covering all water and sewer operations.
- The Company operating under a single management structure.
- The Company being governed by a small professional Board of Directors (not elected members per se).
- The ownership of all County Council and General Purpose Council fixed assets and reserves being passed to the Company.
- The ownership of all County Council assets and reserves being passed to the Company.
- Shareholding being based on the percentage of total assets passed to the Company by the General Purpose Councils.
- Shareholding of GWCC and RWCC assets being divided amongst the shareholders on a per capita basis.
- The transfer of all existing staff presently employed solely for water and sewer operations to the Company.
- The Company encompassing the total area presently covered by REROC, GWCC and RWCC.
- The Company paying its shareholders a minimum dividend fixed each year prior to setting the annual operating budget plus a dividend on profits.

- **The Company being set up debt free, by means of Government grants to cover any outstanding debt already incurred by any of the participating Councils.**
- **The Company being headquartered in Wagga Wagga.**

COOTAMUNDRA SHIRE COUNCIL REFORM PROPOSAL

Development of a Corporate Model for Water and Sewer Service Provision

CSC proposes the development of a corporate structure covering the present areas covered by REROC, GWCC, RWCC, and Young and Harden Shires, based on the following:

- A Proprietary Limited Liability Company under Commonwealth legislation.
- Shareholders being the General Purpose Councils within the defined area only.
- The Company being operated on a fully commercial basis.
- The Company covering all water and sewer operations.
- The Company operating under a single management structure.
- The Company being governed by a small professional Board of Directors (not elected members per se).
- The ownership of all County Council and General Purpose Council fixed assets and reserves being passed to the Company.
- The ownership of all County Council assets and reserves being passed to the Company.
- Shareholding being based on the percentage of total assets passed to the Company by the General Purpose Councils.
- Shareholding of GWCC and RWCC assets being divided amongst the shareholders on a per capita basis.
- The transfer of all existing staff presently employed solely for water and sewer operations to the Company.
- The Company encompassing the total area presently covered by REROC, GWCC and RWCC.
- The Company paying its shareholders a minimum dividend fixed each year prior to setting the annual operating budget plus a dividend on profits.
- The Company being set up debt free, by means of Government grants to cover any outstanding debt already incurred by any of the participating Councils.
- The Company being headquartered in Wagga Wagga.

Legality and Benefit of the Corporate Model

Under s358 of the Local Government Act, Councils can form corporations as follows:

358 Restrictions on formation of corporations and other entities

(1) A council must not form or participate in the formation of a corporation or other entity, or acquire a controlling interest in a corporation or other entity, except:

(a) with the consent of the Minister and subject to such conditions, if any, as the Minister may specify, or

(b) as provided by this Act.

(2) This section does not prevent a council from being a member of a co-operative society or a company limited by guarantee and licensed not to use the word "Limited" in its name.

(3) In applying for the Minister's consent under subsection (1)(a), the council is required to demonstrate, to the Minister's satisfaction, that the formation of, or the acquisition of the controlling interest in, the corporation or entity is in the public interest.

(4) In this section, "entity" means any partnership, trust, joint venture, syndicate or other body (whether or not incorporated), but does not include any such entity that is of a class prescribed by the regulations as not being within this definition.

CSC would argue that the formation of a corporation under the terms outlined above is in the public interest by virtue of:

- A single entity covering all water and sewer operations and thus having the capacity to comply with all best practice and water cycle management requirements
- Utilising a single management structure rather than the multiple variations of administration presently involved in providing water and sewerage services to the communities involved.
- The ownership of all assets and reserves remaining with the communities through their individual Council shareholding.
- The retention of all existing staff positions through transfer to the new entity.

- The corporation encompassing an area large enough to allow cross subsidisation of the costs of provision of water and sewerage services to the communities involved.
- The economies of scale able to be achieved by an entity of this size.
- The increased ability of a large entity (presently 59,110 customers over the total area) to attract and retain professional staff.
- The payment of a minimum dividend to each Council based on the reasonable amount of revenue lost to the Councils general fund as a result of surrendering the provision of water and sewerage services.

Proposed Type of Corporate Entity

Whilst Councils are able to establish a Company Limited by Guarantee, this is not a suitable vehicle because it does not allow for the distribution of dividends to members and it is not the intention to operate for charitable purposes.

Therefore the participating Councils would need to establish a Proprietary (private), Limited Liability Company and consequently would need to obtain the consent of the Minister for Local Government to do so.

Proprietary companies must be limited by shares, have no more than 50 non-employee members and not undertake any activities that would require the issuing of a prospectus. That is, they cannot openly seek investment from the public.

Members of the company are usually shareholders and their liability is limited to the nominal value of their shares plus any unpaid amount on their shares. Nominal capital is defined as the capital with which the company was incorporated.

In order to establish such a company it would be necessary to draw up a Constitution and a Shareholders' Agreement based on the following considerations:

1. A Constitution that reflects the objectives of the Company in which replaceable rules are not utilised.
2. A Shareholders' Agreement which deals with a number of issues, including but not limited to the following:
 - The initial contributions and shareholdings of the shareholders;
 - The terms on which additional capital will be injected and shares allotted;
 - The structure of the management of the company, including the appointment of a managing director or CEO and any limits on his or her powers;

- Detailed provisions regarding the number of directors each shareholder is entitled to appoint, how they will be appointed and removed and how conflicts of interest issues will be dealt with;
- Detailed provisions regarding the holding of board meetings and shareholder meetings, meeting notices and voting rights at meetings (which can differ from the normal provisions in the Constitution);
- Provisions regarding the preparation of accounts and the frequency with which accounts are to be given to shareholders;
- A well defined share dividends policy that addresses issues such as reinvestment and depreciation needs;
- Restrictions on the transfer of shares;
- Dispute resolution provisions and provisions for dealing with deadlocks;
- Obligations of exiting shareholders, including what happens if a shareholder is subject to a forced amalgamation;
- Confidentiality provisions; and
- Priority of the Agreement over the Constitution.

All of these requirements would be easily attainable in the Corporate model proposed by CSC.

Present Legal Impediment with the Corporate Model

It would be necessary for the Minister for Energy and Water to grant an operating licence under the *Water Management Act 2000* (WMA) and include the new entity in Schedule 3 of the WMA as a Water Supply Authority.

Section 287 of the WMA states:

287 Statutory body may be water supply authority

- (1) *The Governor may, by proclamation published in the Gazette with the consent of the Minister administering the Act by or under which a statutory body is constituted, amend Schedule 3 by adding the name of the statutory body to Part 2 of that Schedule.*
- (2) *On the addition of the name of a statutory body to Part 2 of Schedule 3, it becomes a water supply authority but still has its other functions.*

Section 287 only provides for Statutory Bodies to become water supply authorities. At present there is no provision for an alternative body such as a private Company as CSC is proposing to become a water supply authority.

There also appears to be no mechanism in the WMA for declaring a new Local Water Utility (LWU). All the current licences held by LWU's were previously held by the

same bodies under the *Water Act 1912* and were converted to Water Access Licences on the introduction of the *WMA*.

The Gosford-Wyong model is essentially a corporate model but is not registered with ASIC. In this model both Councils were added to Schedule 3 as part of the introduction of the *Central Coast Water Corporation Act 2006* (CCWCA) and consequently became Water Supply Authorities. The CCWCA includes many of the provisions that are contained in the State Corporations Act.

Whilst it may be possible to take the same route as Gosford-Wyong and become a statutory body through enactment, Council would recommend that the *Water Management Act 2000* simply be amended to allow Water Access Licences to be granted to Non Statutory Bodies.

BACKGROUND TO COOTAMUNDRA SHIRE COUNCIL REFORM PROPOSAL

Introduction

In August 2007 the Minister for Water Utilities, Nathan Rees, announced an inquiry into the institutional and regulatory arrangements by which town water supply and sewerage services are provided in country NSW.

In October 2007 the Minister wrote to Cootamundra Shire Council (CSC) advising the preliminary Terms of Reference (ToR) for the inquiry and seeking input from Council into the final ToR.

The purpose of the inquiry was stated as being to identify the most effective governance arrangements for the long term provision of water supply and sewerage services in country NSW, and to ensure these arrangements are cost-effective, financially viable, sustainable, optimise whole-of-community outcomes, and achieve integrated water cycle management.

To conduct the inquiry independently, the Government appointed the former Deputy Premier, Ian Armstrong, and the former head of the Premier's Department, Dr Colin Gellatly.

In January 2008 Council received a Discussion Paper produced by the Department of Water & Energy (DWE), including the final ToR for the inquiry.

Council was invited to make a submission to the inquiry by 7th March 2008 and was then granted an extension until 4th April 2008. Council has now been advised that the date for submissions has been extended until 30th April 2008.

Minister Rees Direct Statements

On 14th February 2008 the Minister attended a meeting of Councils in Wagga Wagga regarding the inquiry and expressed his views on the process and outcome.

Perhaps most important and relevant to Cootamundra was the statement that the Minister would not accept the status quo as an outcome from the inquiry. It was made very plain to all in attendance that the Minister was seeking new and reformed institutional and regulatory arrangements for water supply and sewerage in rural and regional NSW.

This was despite repeatedly stating that he had no predetermined outcome in mind, except perhaps that things needed to change!

On 26th February 2008 the Minister was recorded in Hansard as saying:

“In each of the towns I have visited I have said the models they develop must meet six criteria:

- they must protect revenue streams of Councils,
- protect and enhance capital works programs for Councils,
- protect local jobs,
- provide access to the skills and capacity required for intellectual knowledge into the future,
- have the right pricing model, and
- provide best practice governance.”

This is essentially the same message that was given in Wagga Wagga, minus the statement that the Minister would not be accepting the status quo.

Final Terms of Reference

The ToR for the inquiry, after input from Local Government generally and this Council particularly are as follows:

1. the historical structure of the industry and its performance record to date;
2. the current and future challenges facing the industry;
3. the present capacity of the industry to address those challenges;
4. alternative industry arrangements used in other states;
5. the impact of any changes on the financial sustainability of councils;

6. the socio-economic impacts on the community, including indigenous communities, of any new institutional and regulatory arrangements;
7. the relative performance of other states and their experience with industry reform;
8. the institutional and regulatory options available, including the relative merits and drawbacks of each; and
9. the role local, state and federal governments should play in further improving services.

CSC Position Relative to the Stated Background to the Inquiry

The discussion paper stated that the review is based on the following premise:

“The last detailed review of the water supply and sewerage services for country towns was conducted in 1993. Since then, the operating environment of local water utilities has changed dramatically. Drought, climate change and sustainable extraction rules have reduced the yield of local water utilities’ water systems. Forecast population growth will place additional pressure on water yields and will require sewerage system enhancements and expansion. A substantial capital expenditure program is underway to replace ageing assets. Additionally, local water utilities are experiencing shortages in the skills needed to plan and operate water assets. This situation will deteriorate further with the ageing of the workforce. These challenges will require substantial investment in both physical assets and skilled human resources to ensure efficient, reliable, affordable and safe water supply and sewerage services in the future.”

The discussion paper also cites the need for the inquiry as being the failure of many water supply authorities to comply with the Governments *Best Practice Management of Water Supply and Sewerage Guidelines*.

It is stated that over 85 per cent of water supply authorities with more than 10,000 connected properties do comply, but compliance by smaller local water supply authorities is significantly less. The statistics cited indicate that of water supply authorities such as Cootamundra (1,501 to 3,000 connected properties) only 66% comply for water supply and 51% for sewerage.

The discussion paper then lists the numbers who do not comply with the DWE’s Key Performance Indicators (KPI’s) in Table 1 – Analysis of 2005/06 Water Supply Performance and 2 - Analysis of 2005/06 Sewerage Performance, of the NSW Local Water Utilities (LWUs).

Based on CSC's returns to the DWE, CSC complies with all of these indicators except Water Indicator 15 and Sewer Indicator 14. In both of these indicators Council has a very high return due to mistakenly reporting failures of individual water service lines and sewer blockages of boundary traps as Mains Breaks and Mains Chokes. Council's reporting has now been modified to align exactly with the DWE description; with the result being CSC is well below the allowable limits and in reality complies with all of the KPI's.

It is interesting to note the numbers of non compliant LWU's as a percentage of the 107 LWU's and to wonder why it was not possible to simply assist or require the small percentage failing to improve their performance and comply.

CSC complies with all of the Best Practice Guidelines with the exception of:

Water

- drought management plan
- strategic business plan
- water loss management plan
- water quality plan
- adopted levels of service

Sewer

- liquid trade waste agreements

Council's Existing Arrangements for Water and Sewer

Potable water is presently accessed by the community of CSC in various different ways:

1. by CSC as a County Council operating a retail reticulation network in the town of Cootamundra,
2. by Goldenfields Water County Council providing wholesale water distribution to Council's reservoirs in Cootamundra and a retail reticulation network in the villages of Wallendbeen and Stockinbingal and to some rural properties,
3. by use of rainwater capture on the majority of rural properties, and
4. by trucked supply from Cootamundra town system in times of low rainfall.

Sewerage disposal is presently provided to the community of CSC in two different ways:

1. by CSC operating a reticulated drainage network in the town of Cootamundra, and

2. by CSC approving and controlling Onsite Sewage Management Systems in the villages of Wallendbeen and Stockinbingal and all rural properties.

Whilst Council would contend that this system is adequate and has served the community well for many years it is acknowledged that it is not an ideal arrangement to have different authorities dealing with different parts of the physical system and different customers within the one Council area.

Council's Consideration of Alternative Arrangements for Water and Sewer Service Provision (ToR 8)

At the time the inquiry was announced Council's initial reaction was that it was satisfied with the status quo and believed it was providing good service to the community under the present arrangements. In many ways Council would still put the same argument, however, the Minister's comments regarding the status quo have been taken at face value and a variety of variations on the existing structure have been investigated.

CSC has considered various options, including:

1. Continuing with the status quo.
2. The formation of a County Council covering the areas of Cootamundra, Young and Harden formed to provide wholesale bulk water and retail distribution to the total area. This County Council would also provide wholesale bulk water to Temora Shire. Under this option sewerage would remain the responsibility of the individual Council as at present.

This was seen as remaining close to the status quo but as being too small a water supply enterprise to really achieve economies of scale into the future whilst still leaving sewerage with each Council.

3. The formation of a County Council covering the areas of REROC, GWCC, RWCC and Young and Harden Shires.

This area was considered based on firstly the physical infrastructure existing within the REROC and GWCC systems, and secondly the overlap of these Councils with the REROC group of Councils. The overlap with REROC resulted in Corowa, Tumut, Gundagai and Tumbarumba also being considered despite their present stand alone status.

The County Council proposal operated on the basis of providing wholesale bulk water distribution to each General Purpose Council who would then undertake all retail water reticulation and continue to operate their sewerage systems.

This was seen being a substantial and viable change to existing arrangements. However, following discussion of the concept with the other Councils involved the concept was not accepted. All Councils agreed that sewerage was best operated and administered on a Council by Council basis due to the localised nature of each system. However the majority considered water, which by its nature often crosses Council boundaries, would be more efficiently administered and operated as a single entity on a larger scale.

One of the difficulties identified was the enormous variation in present water operations across the REROC, GWCC and RWCC areas, from total water cycle starting with river extraction and filtration (Tumut, Gundagai), creek and small dam extraction (Tumbarumba), river and groundwater extraction (RWCC & GWCC), wholesale and retail supply (GWCC), urban and rural water distribution (Young, Harden), town water distribution only (Cootamundra) to no water activity (Bland, Temora, Coolamon, Junee). Added to this complexity, Greater Hume and Urana have a mixed system, whilst Corowa is separate altogether from RWCC, similar to Tumut, Gundagai and Tumbarumba.

4. The development of a new structure based on the following:

- A Corporation under Commonwealth legislation.
- Shareholders being the General Purpose Councils only.
- The Corporation being operated on a fully commercial basis.

This proposal was considered as having merit and Council continued to investigate this model resulting in the recommendations included in this submission.

Council's Assessment of Further Suggested Potential Governance Models (ToR 8)

In Mid February the LGSA and Water Directorate released the "*Options Paper on the Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW*" prepared by the Institute for Sustainable Futures for the Local Government and Shires Associations of NSW and Water Directorate, February 2008.

The following nine models were identified in the Options Paper.

	<i>Option</i>	<i>Explanation</i>
1	Regional 'mandatory' alliance	Local Water Utilities (LWUs) must join alliances and pool resources.
2	County Council – services provision only	Assets are owned by councils, but operation is provided by a council-owned and controlled entity under the Local Government Act.
3	County Council – including asset ownership	As for 2, but the county council owns the assets.
4	Council-owned regional water corporation	As for 3 but with a corporatised structure. The structure could have board members representing councils or nominated by both State and councils.
5	State-owned regional water corporation	As for 4, but State is the only shareholder. The main example is Victoria, with 15 regional corporations.
6	Regional council aligned to catchment or sub-catchment	Amalgamated councils, operating over larger areas, but full service structure (water, sewerage and all other general purpose functions).
7	Single, state-wide agency	One agency for the whole of regional NSW – either a State department or a corporatised entity.
8	Disaggregated model – bulk supply, distribution and retail (i.e. the opposite of vertical integration)	Vertically disaggregated organisations, each dealing with one part of the cycle (e.g. bulk supply; bulk distribution; grid management; and retail).
9	Status quo	Existing council-based water utilities remain in place where appropriate.

Of these nine potential models only Models 4, 8 & 9 are considered reasonable by CSC.

- Model 1 is a forced amalgamation of a single part of Council and has no real merit in either operational or administrative efficiency.
- Model 2 is the status quo for water and the loss of sewer operations for CSC, and again has no real merit in either operational or administrative efficiency.
- Model 3 is Model 2 plus the loss of Council's assets.
- Model 4 is seen by CSC as providing the best and safest long term outcome for the CSC community.

- Model 5 is effectively a State takeover of all water and sewer assets and could, quite logically, lead to takeover of other potentially profitable Council activities.
- Model 6 is a proposal for wholesale amalgamations based on river drainage systems rather than people and communities of interest.
- Model 7 is Model 5 at its logical conclusion.
- Model 8 is a variation on the large County Council proposal considered by CSC and whilst having some merit was not accepted by the other Councils involved.
- Model 9 would not be acceptable to the Minister and would be likely to lead to the imposition of Model 5 or 7.

Effect on Council Operations of Loss of Water and Sewer (ToR 5)

The potential direct loss of staff in the event that the present water and sewer operations are no longer undertaken by CSC directly is as follows:

2 x Water and Sewer Attendant
 1 x Treatment Plant Operator
 1 x Administration Clerk

The Treatment Plant Operator and Water and Sewer Attendants are funded totally from the water and sewer funds. The Administration Officer is funded from General Fund via the contributions from the water and sewer funds.

Whilst it is presumed that any alternate arrangement from the present would still require a Treatment Plant Operator and two Water and Sewer Attendants to be stationed in Cootamundra in order to continue the practical operation of the systems, the same cannot be assumed for the Administration Clerk.

Council presently budgets the following contributions from its Water and Sewer Funds to its General Fund:

Contribution from:	Contribution to:	Amount \$
Water fund	Administration	42,300
	Engineering	79,500
	Environment	<u>7,100</u>
	Potential Loss from General Fund of loss of water only	128,900
Sewer Fund	Administration	40,400
	Engineering	95,700
	Environment	<u>9,400</u>

Potential Loss from General Fund from loss of sewer only	145,500
Potential Saving - 1 x Administration Clerk	46,000
Total Potential Loss from General Fund	228,400

As can be seen, the water and sewer funds cover approximately 1.5 engineering staff, 1.5 administration staff and 0.2 health and building staff.

All of these people operate in dual roles undertaking water and sewer and other operations within Council and as such cannot simply be removed from the structure. In practical terms the only reduction in staff based solely upon the loss of a complete position would be the one Administration position referred to above. However, the shortfall in all of the other staff would need to be funded from other sources within General Fund. This will also create difficulties for Council in replacing these positions as the variation in working conditions will make the positions less attractive.

Additionally, Council presently recycles approximately 320 Mega litres of treated effluent onto community Parks and Gardens, an 18 hole golf course and three State schools. Council would need to factor in the additional cost of purchasing recycled effluent, at a cost as yet undetermined. Assuming this water was charged at \$500/Mega litre Council would need to find an additional \$160,000 / annum.

In any restructure or reorganisation of water and sewer operations Council would need to receive approximately \$230,000 per annum to replace the present contribution to General fund from the water and sewer functions and potentially an extra \$160,000 to cover effluent reuse water.

Social / Community Effects of Loss of Water and Sewer (ToR 6)

As well as the single lost Council position referred to above, Council employs various contractors and makes a variety of purchases as part of the operation of the water and sewer systems. It is likely that all of this activity would be lost if the water and sewer functions were lost to the community of Cootamundra by being centralised to a regional centre. These carry on effects are well documented with the loss of a single position affecting a circle of others such as family, friends, business houses, etc.

SUBMISSION IN RESPONSE TO REPORT
INTO SECURE AND SUSTAINABLE
URBAN WATER SUPPLY AND
SEWERAGE SERVICES FOR NON-
METROPOLITAN NSW

Cootamundra Shire Council

March 2009

ORGANISATION NAME: Cootamundra Shire Council
CONTACT NAME: Ken Trethewey
POSITION: General Manager
CONTACT PHONE: 0269402112

SUBMISSION AUTHORISED BY: Cootamundra Shire Council

EXECUTIVE SUMMARY

Response to Report

Council does not accept the Report's proposals for Cootamundra as these appear to:

5. entrench an adequate but far from ideal water supply system
6. allow for continued disputation amongst GWCC councils, and between GWCC and Young, Harden and Cootamundra, regarding the future operation of the system
7. remove the effective control and decision making power over sewerage from Council
8. place an additional financial burden on sewer customers without any obvious increase in service provision

The options proposed for Cootamundra are not considered to be either beneficial to the residents of Cootamundra or viable in the long term. Council believes that rather than resulting in a sensible and viable water supply and sewerage management system, adequate for the next 50 years, this proposal creates an increasingly complex and compromised system.

Council believes that to create a system that would be viable in the long-term water and sewer must be treated as two parts of the same water cycle management system and not be separated. The Report makes it plain that water and sewer should be combined by proposing Water and Sewer Alliances in all but two cases. Council also made this point in its original submission.

Council still believes, as acknowledged in the Report, that a council-owned corporation model as originally proposed by Council remains the best long term solution and would, if possible, remain Councils preferred model.

Alternate Proposal

Council will willingly participate in the furtherance of the REROC Water Alliance model, based on the details included in this submission and Appendix 1, assuming the majority of the included Councils also indicate a willingness to investigate this model further.

Councils experience of resource sharing and co-operative enterprise within the framework of REROC allows Council to consider that the pursuit of the REROC Water Alliance model has the potential to produce a sensible and viable water supply and sewerage management system, adequate for the next 50 years based on co-operation and mutual respect between the participants.

INTRODUCTION

On 14th January 2009, the report into *The Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW* (the Report) undertaken by the Hon. Ian Armstrong and Dr Colin Gellatly at the instigation of the then Water Minister, Nathan Rees, was released.

The Report details and then analyses the submissions that were received in relation to the original brief that was given by the then Minister for Water, Nathan Rees, to look at Water Supply and Sewerage over the next 50 years.

The Report has been defined by the Terms of Reference for the Inquiry, and specific statements made by the then Minister for Water.

The drivers for the Inquiry as outlined in the terms of reference were the “growing challenges posed by drought, climate change, environmental water allocations, demographic shifts, technological advances and skill shortages.”

In summary, the report has canvassed:

- potential aggregations of local water utilities;
- the arrangements that could govern these groups;
- the regulatory options to ensure continual improvement and that safe and secure services are provided to the community;
- pricing options to ensure that sound and sustainable pricing for water and sewerage services are put in place;
- options to enhance and attract skills to rural/regional local water utilities; and
- programs in place to improve the provision of water and sewerage services to Aboriginal communities not managed by local water utilities.

In summary the recommendations of the report are based on the following:

1. Potential Aggregations of Local Water Utilities

Two options were considered:

1. Option One – Regional Aggregation – with 32 groups
2. Option Two – Catchment Aggregation - with 15 groups.

The report recommends that only Regional Aggregation be used as a guide for future local water utility aggregations. The 32 groupings are comprised of:

- 14 or 15 Binding Alliances (water & sewer)
- 2 Sewerage Alliances (sewer only)
- 1, 2 or 3 council-owned Regional Water Corporations
- 8 stand alone council-owned water supply and sewerage utilities
- 2 or 3 county councils
- 3 stand alone water supply authorities

2. Organisational Structure Arrangements

The organisational structure options ultimately presented to the Inquiry for its consideration were:

- Model 1 – Binding alliance model
- Model 3 - County Council (asset owning)
- Model 4 –Council-owned regional water corporation
- Model 9 - Status quo

The report recommends that only three options be considered. These are:

1. Binding alliances.
2. Council-owned regional water corporations.
3. Status quo for certain existing general purpose councils and county councils.

3. Regulatory Options

The four options identified for the improvement of water and sewerage regulation were:

1. Status quo - no enforcement of Best-Practice Management of Water Supply and Sewerage Guidelines.
2. Mandating the Best-Practice Management of Water Supply and Sewerage Guidelines.

3. Requirements set in legislation.
4. Operating licences.

The report recommends:

1. The *Best Practice Management for Water Supply and Sewerage Guidelines* and the *Australian Drinking Water Guidelines* be made mandatory.
2. Increased reporting and monitoring
3. The appointment of a regulator with adequate enforcement powers
5. The adoption of the Energy and Water Ombudsman scheme by local water utilities be mandatory.
6. The reporting and regulatory roles undertaken by State Government agencies be streamlined.

4. Pricing

The terms of reference for the Inquiry state that local water utilities must achieve financial self sufficiency. Three options were canvassed:

1. No enforcement of best practice pricing principles (status quo).
2. Mandatory best practice pricing principles.
3. Pricing regulator (e.g. IPART).

The report recommends:

1. That local water utilities pricing be in accordance with approved business plans and financial plans.
2. Local water utility prices be approved by an independent body such as the Department of Water and Energy or IPART.

5. Skills

The report identified some options to manage anticipated skills shortages, including:

1. Forming regional local water utilities to provide sizable utilities with the necessary specialist technical skills.
2. Offering incentives to communities of small local water utilities to undertake training in areas identified as skills needs (e.g. engineering and planning).
3. Pooling human resource needs amongst local water utilities.
4. Providing skill development opportunities for local water utilities staff.
5. Outsourcing skills needs to the private sector;.

6. Increasing the capacity of training and development organisations.

SPECIFIC RECOMMENDATIONS RELATING TO COOTAMUNDRA SHIRE

Water

The Report proposes Goldenfields Water County Council (GWCC) continue without alteration. That is:

1. GWCC would provide a reticulated water supply to all of Bland, Coolamon, Junee and Temora Shires, the rural parts of Cootamundra Shire and one line in Narrandera Shires.
2. GWCC would continue to provide a fully treated bulk water supply to Harden and Young Shires and the town of Cootamundra, which would then be reticulated by these councils.

The report indicates that GWCC has the scale and resources to stand alone with a customer base of greater than 10,000 and annual turnover of greater than \$10,000,000. (Connected Properties: 19,600, Total Revenue: \$15M, Area: 24,000 km²)

This is despite being described as achieving only 40% compliance with the Best-Practice Guidelines for water supply.

Sewer

The report proposes a Binding Sewer Alliance of 'the general purpose councils within the Goldenfields County Council area of operations'. That is, Bland, Coolamon, Cootamundra, Harden, Junee, Temora and Young councils. Narrandera has not been included in the Report's proposed Binding Sewer Alliance.

The Report does not propose that GWCC become the Binding Sewer Alliance entity.

The report indicates that the proposed Binding Sewer Alliance will have a customer base of 15,500 but only have an annual turnover of \$5,000,000.

This is despite the Report recommending that any alliance have a minimum annual turnover of greater than \$10,000,000. (Area: 21,900 km²)

COUNCIL ANALYSIS OF RECOMMENDATIONS FOR COOTAMUNDRA

Water

Council could continue with GWCC as presently structured as this arrangement provides an acceptable level of service to the Cootamundra retail customers.

This would presumably mean the continuation of the original proclamation including clause 15(c) *'Cootamundra Shire Council shall undertake the functions of the County Council with regard to reticulation of water within the town of Cootamundra'*, and clause 16 requiring GWCC to review and report to the Minister the relative efficiency of CSC compared to GWCC each three years.

Council is aware that this is the clause used by GWCC to propose the transfer of Council's water assets and business to GWCC recently. In fact, the Report notes that, *"Cootamundra, Harden and Young all opposed Goldenfields' takeover of their water supply distribution businesses in 2007"*.

Whilst it can be argued from an external position that GWCC is a functional and adequate water supply authority, it is suggested that as a stand alone water only authority it will not be able to achieve many of the requirements included in the Report in the long term.

Sewer

The 'Goldenfields Sewer Alliance' is one of two sewer only alliances proposed, the other being 'Wagga Wagga/Lockhart Sewer Alliance'. In both cases this appears to be the result of the Report recommending the continuance of the existing water county council and then needing a proposal to deal with sewer in these areas. The eleven other Binding Alliances proposed include both water and sewer.

The binding alliance being proposed by the Report is not an alliance in the traditional sense, as embodied in REROC or the South West Regional Waste Management Group.

The Binding Alliance entity described in the report is more akin to a hybrid of a Corporation and a non asset-owning County Council.

The Sewer Binding Alliance entity:

- is a separate legal entity to the constituent councils (for example, a corporation – must have authority over constituent councils)
- is responsible for the strategic and financial planning function of member councils
- determines the following for each member council:

- levels of service to be provided
- capital expenditure required
- operation and maintenance expenditure required
- the long-term financial plan
- revenue needed to fund the capital and operating expenditures
- projected volume of swage removed and number of properties to be levied
- proposed charges to raise the required revenue
- determines its own operating expenditure to be paid by the member councils
- provides specialist technical skills to the member councils (by employing or contracting these skills)
- develops the asset management plans for each member council
- directs and controls asset management by member councils

The Sewer Binding Alliance entity would be responsible for:

- integrated water cycle management planning
- development servicing plan
- environmental management planning
- regulation of sewerage and trade waste, including a liquid trade waste policy
- facilitating and procuring major capital works
- developing a comprehensive data collection and reporting system
- performance reporting, monitoring and benchmarking

The Sewer Binding Alliance entity would set sewerage charges for member councils in accordance with either:

- mandatory pricing principles with independent oversight; or
- determinations of the Independent Pricing and Regulatory Tribunal.

The member councils would own the sewerage assets within their individual council areas.

The member councils would be required to:

- manage, operate and maintain their sewerage assets (in accordance with the asset management plan and levels of service determined by the Binding Alliance entity)
- implement the capital and operating plans in accordance with the asset management plan and their allocated budget
- undertake all billing and all customer interface

- collect the budgeted revenues and expend the revenues in accordance with the capital and operating budgets
- remit to the Binding Alliance entity the member council's share of the entity's operating cost
- maintain assets in accordance with the entity's asset management plan
- provide sewerage services in accordance with service level agreements between the entity and the member council
- provide customer service facilities
- implement the data collection and reporting system

The Report indicates that the annual cost to maintain a Binding Alliance for water and sewer could be between \$375,000 and \$720,000. It can be assumed that a sewer only Binding Alliance would not be as costly to set up and run, however, it would still require the majority of resources needed for a sewer and water alliance and is likely to cost well in excess of half that amount to operate.

Based on the Report the additional cost per annum of the Goldenfields Sewer Binding Alliance as proposed would be between \$24 and \$46 per customer.

Interestingly, the Report states:

- *Councils will be compelled by legislation to be members of the alliance.*
- *Member councils will be compelled by legislation to comply with the directions of the Alliance Entity.*

This implies that the alliance model agreed by the majority of member councils (presumably in the Report suggested groupings) will be the Binding Alliance. Additionally the Report states that once a council enters into any arrangement that council cannot withdraw from that arrangement.

COUNCIL RESPONSE TO RECOMMENDATIONS FOR COOTAMUNDRA

The proposals for Cootamundra in the Report appear to:

1. entrench an adequate but far from ideal water supply system
2. allow for continued disputation amongst GWCC councils, and between GWCC and Young, Harden and Cootamundra, regarding the future operation of the system
3. remove the effective control and decision making power over sewerage from Council
4. place an additional financial burden on sewer customers without any obvious increase in service provision

Rather than resulting in a sensible and viable water supply and sewerage management system, adequate for the next 50 years, this proposal creates an increasingly complex compromise system.

In order to provide the best long term system water and sewer should not be separated. The Report makes it plain that water and sewer should be combined by proposing that combination in all but two cases. Council also made this point in its original submission.

The options proposed for Cootamundra:

- GWCC continue without alteration, and
- Formation of a Binding Sewer Alliance of 'the general purpose councils within the Goldenfields County Council area of operations',

are not considered to be either beneficial to the residents of Cootamundra or viable in the long term.

Therefore, Council does not accept the Report's proposals.

REPORT COMPARED TO COUNCIL'S ORIGINAL SUBMISSION

The assessment of the alternative models in Chapter 6 effectively concluded that only three organisational structure models were viable; these being:

- a binding alliance
- a council owned corporation
- the status quo for specific councils.

In the course of reaching this conclusion the report stated that,

'The council-owned regional water corporation is the best-practice business model for the delivery of water supply and sewerage services. This model is ideal for larger communities in contiguous local government areas where communities are not dependent for their sustainability on local council employment.'

The Report only made one statement against the council owned corporation model and this related to the possible non-viability of small councils that are heavily reliant on their sewer and water operations, in some cases for 30-40% of their total revenue.

In the case of CSC the water and sewer revenue accounts for 13% of total revenue, and as indicated in Council's original submission the loss of water and sewer would

result in a reduction of around \$230,000 from Council's General Fund. This would easily be recovered by dividends and tax equivalent payments in the corporate model.

ALTERNATIVE OPTIONS

Council-owned Corporation

It remains Council's view, and the view indicated in the Report, that the council owned corporation model as originally proposed by CSC remains the best long term solution.

However, Council understands that the Department of Local Government (DLG), the United Services Union (USU) and all of CSC's neighbouring councils reject this as an option. Council also understands that the USU, DLG and Department of Water and Energy (DWE) are not advocates of the Mandatory Alliance model proposed in the Report.

Therefore, whilst Council will not pursue this option further, it does reiterate that the council-owned corporation remains CSC's preferred model.

RIVERINA REGIONAL ORGANISATION OF COUNCILS (REROC) ALTERNATIVE MODEL

The Report, and its recommendations for all REROC councils, has been discussed at REROC in an attempt to find a consensus position that would be palatable to all, or at least the majority, of REROC councils.

The initial discussion determined that the majority of REROC councils were not happy with the recommendations of the Report and that most believed that if no action was taken the final result would be the imposition of some form of regional approach at some stage without council input.

Therefore, it was agreed:

- an alternative would need to be found
- water and sewer should not be separated
- each council (including the county councils) should continue to undertake the same operational role as at present
- each council should own its own assets
- each council should set its own charges and budget

As a result REROC produced a discussion paper, based around five models, each relying on the formation of a common technical services unit.

CSC was an advocate for this approach and had heavy involvement in the initial discussions leading to the options proposed, and advocated for REROC Option 1 – The REROC Water Alliance, in combination with Option 6 – The Common Technical Services Unit.

CSC attended a meeting of REROC councils (not present - Bland, Corowa & Young, present - Harden) at which the REROC discussion paper and its various options was discussed. The result of the meeting was that the majority of those present accepted that some type of joint proposal was appropriate for all, or at least the majority, of the councils making up REROC, plus Young and Harden as participants in GWCC. There was a general agreement that Options 1 and 6 of the discussion paper would be the most appropriate, covering the whole of the water management cycle.

THE PROPOSED REROC WATER ALLIANCE MODEL

The basis of this proposal is as follows:

- The new authority would be a formal alliance of all the water and sewer providers presently operating in the overlapping areas of REROC (excluding Corowa), GWCC and RWCC.
- Each council would continue to own and operate all of their existing water and or sewer assets.
- Each council would continue to employ their existing personnel.
- The authority would employ an appropriate number of technical and / or administrative staff to provide an overarching co-ordinating role.
- Authority staff would make recommendations to the authority which, if agreed, would then be directed through to each council.
- Each council would allocate staff resources and work collaboratively to provide the necessary input to authority staff to fulfil their role.
- The authority would provide a framework which each council would then use to develop its own:
 - Strategic Business Plan
 - Asset Management Plan
 - Long-term Financial Plan
 - Best-practice pricing
 - Water conservation and demand management strategy
 - Drought management plan and strategy
 - Data capture systems and reporting mechanism
 - Integrated Water Cycle Management

- Customer service standards
- Community education campaigns;
- Skill shortage strategy
- The authority would meet regularly and report back to each council.
- The authority would not make decisions that are binding on the member councils, but would make recommends to councils.
- Councils, whilst being bound to the authority, would be responsible for making their own decisions based on advice from the authority.
- The authority would incorporate a Common Technical Services Unit designed to allow the sharing and co-ordination of each council's existing technical expertise in areas such as:
 - General Engineering
 - Design Engineering
 - Works Engineering
 - Water Modelling
 - Water Conservation and Demand Management Studies
 - Water Quality Testing and Monitoring
 - Hydrogeological Studies and Assessments
 - Spatial Data Services, including GIS and GPS
 - Environmental Management Services
 - Stormwater Management Services
 - Staff training

Council determined at its 16th March 2009 Ordinary meeting that it could work within the REROc proposed model and that it should make a submission to the *Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW* indicating that it is intending to be involved in the REROc Water Alliance based on the details included in this submission.

CONCLUSION

Council does not accept the Report's proposals for Cootamundra.

Council believes that rather than resulting in a sensible and viable water supply and sewerage management system, adequate for the next 50 years, this proposal creates an increasingly complex and compromised system.

Council believes that to create a system that would be viable in the long-term water and sewer must be treated as two parts of the same water cycle management system and not be separated.

Council still believes, as stated in the Report, that a council-owned corporation model as originally proposed by Council remains the best long term solution and would, if possible, remain Councils preferred model.

However, Council understands the need for compromise and can see benefit in the REROC model outlined above.

Council's will willingly be part of the REROC model if the majority of the included Councils also indicate a willingness to investigate this model further.

APPENDIX 1

RIVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS

Local Water Utility Alliance Model 1 &6 – Discussion Paper

The Models set out below are based on the feedback received from members at the meeting held on 2 February 2009. Each of the proposed models has been outlined and assessed however, operational details and costings have not been undertaken and are not planned to be undertaken until there is agreement on the model or models that members wish to pursue. The models discussed are:

1. Formal Alliance of all water and sewerage providers – The REROC Water Authority
2. The Common Services Technical Unit

The figures included in the paper are based on the participation of the following councils in the proposals:

- Bland
- Coolamon
- Cootamundra
- Greater Hume
- Gundagai
- Junee
- Lockhart
- Temora
- Tumbarumba

- Tumut
- Urana
- Wagga Wagga
- Harden
- Young
- Goldenfields Water
- Riverina Water

While it is recognised that Greater Hume and Urana may join the RAMROC proposal both have been included because they source at least some of their water supply from Riverina Water. Corowa has not been included because it is assumed that they will join the RAMROC proposal.

The Inquiry Report's authors established guidelines for groupings of councils as well as criteria for assessment the effectiveness of proposed alliance models. Each of the proposed models has been assessed using those assessment tools, in undertaking the assessment we have attempted to emulate the approach that the Report's authors adopted.

Model One – Formal Alliance of water and sewerage providers
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The REROC Water Authority

Overview

The LWU and sewerage service providers establish a structure that formalises co-operative arrangements that support service delivery by the current, existing providers. The Authority's activities occur within the existing REROC framework; in much the same way as the REROC Waste Forum operates as a distinct, identifiable and separately funded entity within the REROC Framework. However, unlike the Waste Forum, a formal Deed of Agreement that all participating councils will be required to sign will support the Authority's operations.

Participating Councils would be as depicted in the following map:



The Authority's goals would be to:

1. Promote the efficient and effective delivery and management of water supply, sewerage and stormwater services in the Eastern Riverina;
2. To encourage sustainable water conservation, water re-use and recycling;
3. To support the recognition and promotion of water, waste water and stormwater as a finite economic, community and social resource;
4. To assist member councils to achieve Best Practice Management for water supply and sewerage.

The Authority will not own infrastructure delivery assets; they will remain the property of the existing providers.

Activities

The Authority will take a regional perspective with regard to the integration of water, wastewater and stormwater services, working collaboratively with members on the following activities at a regional level:

- a) Strategic Business Planning;
- b) Asset management planning;
- c) Development of long-term financial planning tools to underpin a) and b) above;
- d) The development and implementation of best-practice water supply, sewerage and liquid trade waste pricing tools and structures;
- e) Acting as an interface and conduit between the Service and Pricing Regulators (DWE and IPART) and the Authority members;
- f) The development of water conservation and demand management strategies;
- g) The development of regional drought management plans and strategies;
- h) The development of data capture systems and reporting mechanisms that assist in regional performance monitoring and reporting;
- i) Development of a strategic framework for the delivery of Integrated Water Cycle Management covering water supply, sewerage and stormwater for the region;
- j) To monitor the water reform process at a national and state level and assess the likely impacts on the operations of the member councils;
- k) Development of customer service initiatives including dispute resolution systems that support high quality service delivery;
- l) Community education campaigns;
- m) Addressing skill shortage issues in the sector and implementing strategies that address those issues;
- n) Regional procurement of goods and services.
- o) Capacity building initiatives for member councils including formal training.

Specific technical works and activities are to be delegated to the Common Technical Services Unit (CTSU) which will operate as a s355 committee within one of the member councils. For more information on the operation of the CSTU see below.

Representation and Meetings

The Authority will meet every second month on the alternate month to the REROC Board meetings; this will allow reports and recommendations from Authority

meetings to be considered at the REROC Board meetings. This process will ensure that the Authority remains part of REROC, in much the same way as the Waste Forum currently is.

Council representation at Authority meetings will be by Council staff, who are responsible for the delivery of the affected services, preferably at Director level. Each Council will be able to have two staff members to attend the meeting.

The meetings will make recommendations to the REROC Board and it will be the Board of REROC that makes the final decision on the recommendations.

Staffing

The operation of the Authority would sit within the existing REROC structure, thus leveraging off the existing REROC resource and secretariat base.

However the Authority will require a dedicated Executive Officer and secretarial support, answerable to the REROC CEO and possibly as work expands a Project Officer. These staff will take on the administrative, facilitation and co-ordination responsibilities for the group and be accountable for the delivery of the regional activities outlined above. The

As stated above technical services will be provided by the CTSU, which will be funded separately. Staff from the CTSU would be expected to provide technical expertise and input into the development and delivery of the regional activities.

Formal Agreement

The member councils would be required to formalise the arrangement through signing a Deed of Agreement. The Deed would define the operation of the Authority, including the following issues:

- a) The initial start-up contributions the terms on which annual contributions are to be calculated and applied to members;
- b) The structure and management of the Authority;
- c) Purpose, objectives and activities of the Authority;
- d) Provisions regarding the holding of meetings, meeting notices and voting rights at meetings;
- e) How councils reach agreement on actions e.g. voting, majorities, consensus decision-making,
- f) Lines of reporting and accountability;
- g) Dispute resolution provisions and provisions for dealing with deadlocks; and

- h) The operation of the CSTU, including opt-in and opt-out provisions.

Cost

At this stage no real costings have been undertaken however if the proposal was based on the current cost of running the RERO secretariat then around \$180,000 per annum would approximate the running cost of the Authority excluding the operation of the CSTU. This could be met from Council water and sewer funds on a per connection basis.

MODEL AGAINST REPORT GUIDELINES AND ASSESSMENT CRITERIA

Ability to Meet Report Guidelines for a Grouping

This model meets the Inquiry's criteria for a regional grouping (as outlined on page 2 of the Report) in the following ways:

1. **Number of connected properties:** The model has in excess of the recommended benchmark of 10,000 connected properties. Connections for this model are as follows:
 - a. **Water:** 54,930
 - b. **Sewerage:** 45,750
2. **Annual Operating Revenues:** The model has in excess of the recommended benchmark of annual revenues of \$10 million or more. Total revenues for the proposed grouping are as follows:
 - a. **Water** \$42M
 - b. **Sewerage:** \$23.6M
3. **Sensitive to Catchment Boundaries:** the eastern Riverina area virtually mirrors the mid-Murrumbidgee Catchment area and therefore the proposal would allow water management on a catchment basis
4. **Builds on Existing Alliances:** the Authority is an extension of the operations of RERO and therefore builds on what is an already highly successful and long-running local government alliance.
5. **Has a regional Centre** – the Authority includes the regional centre of Wagga Wagga.
6. **Support by Councils** – the Authority proposal is supported by the member councils.

Ability to Meet the Evaluation Criteria set by Report

The Report established 8 criteria by which the potential performance of each of the Models proposed by councils was assessed. The above model has been assessed against this, as follows:

1. Viability – *the ability to raise sufficient revenue for operating and capital requirements*

There is a Deed of Agreement between members which outlines roles and responsibilities in relation to the Authority's performance and the performance of the members of the Authority. Individual members could be made accountable to the other Authority members for non-performance of agreed obligations. Members could choose to compel councils to adopt and implement agreed performance improving strategies through the Deed.

The Inquiry appears to be adamant that without some form of compulsion within the Model that the viability criteria cannot be achieved. The Inquiry states that without compulsion there is greater uncertainty around the member councils' ability to generate adequate revenue to fund operations, because members could choose not to implement performance enhancing initiatives.

2. Impact on Financial Sustainability of Councils – *impact on council finances*

All assets as well as the revenues from water supply and sewerage are retained by the member councils; there would be minimal impact on financial sustainability.

3. Effectiveness – *ability of the organisation to deliver positive commercial, social and environmental outcomes*

The Authority is a distinct entity within the RERO framework. The Deed of Agreement could include objectives that focus on delivering commercial, social and environmental outcomes as well as clauses that compel members to meet agreed performance standards,

Again the Inquiry equates effectiveness with compulsion – stating that the Model cannot achieve its objectives unless it is able to compel performance from members.

The question arises as to why we would have to compel members to meet agreed performance standards. The Deed of Agreement will need to address how agreement is reached in relation to performance, which would in theory make compulsion redundant.

4. Efficiency – *willingness to accept independent pricing review and maximum price setting*

The Model proposes setting pricing tools and mechanisms to address Best Practice Management for Water Supply and Sewerage. It does not propose interfering with price setting on a local level but instead working with councils to develop pricing tools and systems that support efficient outcomes.

An independent review of pricing mechanisms will occur as part of the process of establishing and applying pricing tools and systems.

5. Economies of Scope – *ability of councils to continue providing services other than water supply and sewerage services*

The model does not propose removing water supply and sewerage from the direct control of member councils; consequently economies of scope are retained.

6. Planning Integration – *ability of councils to continue with integration of water supply and sewerage planning, land use and development*

The model proposes greater integration between county councils and sewerage-only providers therefore planning integration is increased. For those councils that are responsible for both water supply and sewerage they will remain in the direct control of councils and consequently planning integration for those councils is retained.

7. Employment – *impact of organisational structure on employment*

Member councils retain the management and operating responsibility for providing water supply and sewerage services. Consequently there is no impact on jobs.

The formation of the CSTU will potentially create new technical positions in the region.

8. Social and economic – *impact of organisational structure on communities*

The model is unlikely to have a detrimental impact on communities because there will be little or no impact on communities because there will be little or no difference in the way the member councils provide water supply and sewerage operations.

Model Six - Common Technical Services Unit

Each of the models above includes provision for the establishment and operation of a Common Technical Services Unit (CTSU).

The establishment of this Unit recognises the increasing difficulty that LWU's face in recruiting and retaining qualified and experienced staff. The Unit will be a regional resource established as a s355 Committee hosted by a member council but operating as a distinct entity. This model allows REROC to ensure that staff are able to retain their employment conditions under the Local Government State Award while ensuring that all income and expenditure incurred by the Unit is "ring-fenced" from the host council's revenues (in much the same way as Tumut Shire Council's Snowy Works and Services Unit operates).

This arrangement also allows member councils to transfer specialist staff into the Unit (if they so choose) without those staff losing any entitlements. A transfer into the Unit would not necessarily require that staff member to relocate, while it is envisaged that the CTSU would be operated from a single location, ensuring that there was a critical mass of professionals supporting each other and sharing common resources, other staff could be "in the field" that is located within REROC member councils servicing multiple councils from a the host council (in much the same way as the Road Safety Officer Project did).

Main objectives of the Common Technical Services Unit is:

- a) To assist Authority members to fulfil their principal objectives by providing or arranging for the provision of technical services which may include one or more of the following:
 - i. General Engineering
 - ii. Design Engineering
 - iii. Works Engineering
 - iv. Water Modelling
 - v. Water Conservation and Demand Management Studies

- vi. Water Quality Testing and Monitoring
- vii. Hydro geological Studies and Assessments
- viii. Spatial Data Services including GIS and GPS
- ix. Environmental Management Services
- x. Stormwater Management Services
- xi. Staff training

- b) To operate its activities in accordance with good commercial practice;
- c) To seek opportunities to contract out its services when doing so would not be to the detriment of the member councils.

The CTSU would have to be headed by a senior engineer, who would be responsible for the allocation of the works to be undertaken by the Unit.

Not all members would necessarily take up the services of the CTSU and if not they could contract their services on an as needed basis, with the services being provided only if it is not to the detriment of the councils who are partners in the CTSU.