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30 May 2011

Urban Water Inquiry  
Productivity Commission  
Locked Bag 2 Collins Street East

MELBOURNE VIC 8003

Dear Sir/Madam

### **Comments on Draft Productivity Commission report**

Thank you for the opportunity to review the draft Productivity Commission report titled "Australia's Urban Water Sector" released in April 2011. The draft report is considered to be a comprehensive and well-researched analysis of Australia's urban water sector. Council wishes to comment on some recommendations, and also respond to some of the information requests contained in the report as follows:-

#### *Chapter 7*

##### Draft Recommendation 7.1

**The provision of meters to all new single & multi unit dwellings is supported.**

##### Draft Recommendation 7.2

**The mandatory charging of tenants for all water charges is NOT supported. This is not considered to be a practical direction nor is it considered that this will increase efficiencies. Shoalhaven currently has voluntary arrangements for landlord/tenant payments and this works to the satisfaction of both parties. Unlike other utilities such as gas, electricity, and telecommunications the "connection" and "disconnection" of water and sewerage facilities for changing tenants is not a simple arrangement. The Commission is urged to reconsider the practical application of such a recommendation, having due regard to billing cycles and payment incentive methodologies.**

##### Draft Recommendation 7.3

**A default two part tariff is supported with a single volumetric component. It is agreed that a trial would be required to assess the implications of introducing more choice to consumers.**

#### *Chapter 7 - Information Request*

*The Commission is seeking further information on how developer charges are levied in each jurisdiction, for both greenfield and urban infill developments. Do these currently provide adequate signals on the costs of servicing new developments? To what extent should developer charges be set periodically on an 'across utility' basis, or be specific to the development in question? Would more development specific charges, especially in high cost areas, encourage greater innovation? Would it be better for developers to build the required infrastructure according to standards set by the utility? If so, what issues would need to be addressed to operationalise this? What are the main impediments to introducing more efficient developer charges?*

**The Commission would be aware that developer charges in regional NSW are currently set through guidelines provided by the NSW government. This is seen as an appropriate mechanism, however, a review of these guidelines by IPART in 2007 has not been released by the NSW state government to local government nor to the development industry. Shoalhaven Council has separately raised this issue with the NSW Office of Water, and has also supplied that office with further details of legislative modifications required to streamline the linkages between the Environmental Planning and Assessment Act, the Water Management Act and the NSW Local Government Act, all of which have relevance in the application of developer charges in regional NSW.**

#### *Chapter 7 - Information Request*

*The Commission is seeking views about pricing principles. What should be included in these principles so that they provide sufficient guidance for utilities?*

**The Commission is aware that pricing in regional NSW is guided by the NSW government Best Practice Guidelines. One of the principles to be applied by LWUs under these guidelines is the "rule" that 75% of residential income should be sourced from usage income. The basis of this rule has never been quantified and it is considered that less prescriptive type of principles should be the basis of any pricing.**

#### *Chapter 11- Information Request*

*Are ministerial directions common for Government Trading Enterprises (GTEs) in the urban water sector? If so, are they given formally, and are they publicly reported? Are informal directions seen as a problem? Are there similar issues with instructions from councillors in those cases where utilities are council owned?*

*Would independence, responsibility and accountability be improved by constituting utilities under the Corporations Act 2001 (Cwlth), rather than state water industry or general GTE legislation?*

**In the case of Shoalhaven Water, as a business unit within the larger Council framework, the resolution of conflicting and competing demands is done within the Council Committee framework and the full Council agenda. Unlike many other Councils, Shoalhaven is large enough to have given water and sewerage activities a separate profile with the Director fully focussed on only water and sewerage. Similarly, Shoalhaven has a separate water committee that has all delegations permissible within the Local Government Act. Like any other utility, Shoalhaven Water must balance the conflicting objectives of such things as selling water and reducing demand. However, under the current governance framework, the debate on these conflicts can be made in a totally transparent fashion – it is all within the public domain. In addition, the need to link water and sewer objectives to the larger Council Community Strategic Plan sets the tone and guidance to ensure that the objectives are appropriate and consistent.**

**Water and sewer proposed fees and charges, together with the proposed annual program are presented to the community in April/May each year, prior to formal adoption by Council. This process for stakeholder engagement allows for any significant issues to be aired and debated within the public arena.**

#### *Chapter 13- Information Request*

*Is the economic real rate of return an appropriate measure to assess full cost recovery? Are there any risks in using this measure, especially in considering whether utilities are properly providing for returns on capital invested to date, and on future capital expenditure? Is there merit in adopting a measure, or at least a benchmark, that reflects full economic cost?*

**As noted in the Commission's report, the incidence of low or negative ERRRs has not been unique to NSW Regional Water Utilities. In the case of Shoalhaven, the ERRRS in previous reporting years have been reflective of the global financial crisis and the drought. It is considered that the ERRR is one measure that should be reported to demonstrate full cost recovery – however setting a target of (say) 5 to 6 % has not been demonstrated to be sustainable. Shoalhaven's short and long term financial strategies demonstrate full cost recovery and target a dividend to Council each year. The question arises when setting an ERRR or a target dividend is what level of "commercial viability" should be targeted. It is considered that further analysis of data over longer periods that reflect different levels of national and global economic and environmental variables would be needed to substantiate to the community the impact of higher commercial returns to the business.**

#### *Chapter 13- Information Request*

*Do local government financing policies, including restrictions on rate increases, directly or indirectly influence the price setting or investment behaviour of council-owned utilities, and if so how?*

**Shoalhaven has clearly and transparently separated its water and sewer business from the general fund activities. The debates on the general fund rate pegging do not influence the setting of charges for water and sewer – this is a separate debate that is undertaken. Any dividend from the water and sewer businesses is transferred into the general fund strategic project reserve.**

*As with the major metropolitan utilities, the Commission is interested in views as to whether regional water corporations should be structured as Government Trading Enterprises or corporations under the Corporations Act 2001 (Cwlth). Further, what are the ways that community views could be reflected in the utilities' activities without undermining the principle of board appointment by merit?*

**It is considered that any regional aggregation of utilities should be as Council owned enterprises.**

Yours faithfully

**Carmel Krogh  
Director Shoalhaven Water**