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TAMWORTH REGIONAL COUNCIL

SUBMISSION TO

INFRASTRUCTURE AUSTRALIA – REVIEW OF REGIONAL TOWNS WATER QUALITY AND SECURITY

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1 INTRODUCTION

Tamworth Regional Council (TRC) wishes to take the opportunity to make a submission to Infrastructure Australia's Review into Regional Towns Water Quality and Security Review prepared by Aecom.

Tamworth Regional Council services an area of 9,650 square kilometers in the North West of NSW and provides water and/or sewer to the City of Tamworth and smaller towns and villages to the north and south of Tamworth including Barraba, Manilla, Nundle, Attunga, Kootingal/Moonbi and Bendemeer. The Council was formed in March 2004 through the amalgamation of 5 former Councils – Tamworth City Council, and the Shires of Manilla, Parry, Nundle and Barraba.

Whilst generally supportive of most of the key recommendations contained with the review Council has significant concerns with the recommendation to "reform the governance structure of regional water utilities in NSW and Queensland".

TRC is a "general purpose" regional council providing most services to the local community including water and sewerage services. Any changes to the way in which water and sewerage services are provided would significantly impact strategic planning in the Tamworth region and the overall Council operations.

The purpose of the submission is to bring before Infrastructure Australia some of Council's key concerns if the recommendation relating to governance reforms as detailed in the review are implemented.

2 MAJOR ISSUES AND CONCERNS

The following list some of Council's major issues and concerns with the recommendation to review governance structures and the review in general.

2.1 Financial Viability of Councils if provision of water and sewer services is removed

In NSW the Local Government Act requires that income raised from the provision of reticulated water is reserved in a special fund (termed the Water Fund). Similarly funds raised from the provision of reticulated sewer are reserved in the Sewer Fund. General rates income is placed in the General Fund. Only works related to water and /or sewer can be funded by the Water and/or Sewer Funds. All other Council activities are funded from the general fund.

Water and sewer activities contribute a significant proportion of funds to the general revenue of Council. In many Councils the very financial viability of the general fund and therefore the Council itself is intrinsically linked to the funding provided by water and sewer activities.

Generally it is considered that the larger the Council the less reliant on water and sewer activities a Council is. In the case of TRC water and sewerage funds currently contribute approximately \$8 million to \$10 million per annum to the general fund for the provision of internal services and specific water and sewerage service construction and maintenance works (this amount also includes a dividend of \$1.176 million).

In addition Directorates within Council largely funded by the General Fund have undertaken major construction works using funding provided by the water and/or sewer fund in addition to providing the operation and maintenance of town and village water and sewerage services. This helps even out workload and utilisation of Councils overall operational resources, optimising the provision of all services.

Should the water and sewerage service function be removed from Council the net loss in dollar terms to the Council general fund would be \$4.134 millions as summarised in the table below.

Summary of Net Loss to General Fund if Water & Sewerage Funds Removed from TRC (excluding specific water and sewerage construction & maintenance works undertaken by General Fund)		
Item	Amount \$	Comments
Water & Sewer Fund Dividends	1,176,390	Meeting DEUS/DWE Best Practice
Annual Direct Charges Internal Service Providers	1,404,620	Customer Service, Finance, Human Resources, Office of the General Manager, Information Technology, Store / Warehouse, Integrated Management System, Asset Services
Service Delivery Agreements	975,097	Business Support, Survey & Design, Grounds Maintenance & Environmental Laboratory (loss of profit on laboratory)

Comment [a1]: Bruce you do not have this highlighted the dividend figure paid by water and sewer to general fund in 09/10 was \$1,176,390 you had the figure 1,151,600

Comment [a2]: This figure is up considerably from previous lab profit is ove half mill confirmed with nigel t that additional lab testing with const of new sewer aug schemes

Charges for facilities	95,000	Lost income for office and depots
Charges for Plant Overheads	174,000	Share of plant overheads
Contributions to Non Recurrent Costs	288,629	Cost for contributions to aerial imagery, energy saving plans, asset systems, GIS systems, GPS etc
Capital Works Oncosts	20,000	
Total	4,133,736	

TRC annual operating income and expenditure budget for the General, Water and Sewerage Funds, and consolidated amounts for 2009/2010 financial year is summarized in the table below.

Budget Item	General Fund	Water Fund	Sewerage Fund	Consolidated Total
Operate Inc.	\$60,477,940	\$12,011,233	\$16,143,546	\$88,632,719
Operate Exp.	\$72,155,293	\$12,485,519	\$12,064,797	\$96,705,609
Capital Exp.	\$30,295,031	\$9,812,749	\$57,482,319	\$97,590,099
Total Exp	\$102,450,324	\$22,298,268	\$69,547,116	\$194,295,708

Within the consolidated TRC 2009/2010 budget the Water & Sewer Funds represent 32% of TRC total operating income and 47% of operating & capital expenditure.

Given this very real link between financial viability of Councils and the provision by those Councils of water and sewer services any proposal to remove water and sewer from Councils must consider what happens to the local Council once the water and sewer services are removed.

2.2 Cost of setting up the new Regional Authority

Who pays to set up the new regional authority? Council would argue that the residents have already paid to establish the existing Council based administration system and should not be required to contribute to the cost of a new system. Therefore any change to the existing governance structures, particularly one that takes control of the service provision out of the hands of those that paid for the existing facilities must not be funded by the existing users.

A real example of this concern occurred when the NSW Government legislated to remove County Councils as electricity retailers/providers in the state and created State owned corporations to take over this role. The North West region, including Tamworth, where provided electricity by the Peel Cunningham County Council (PCCC). The head office of PCCC was in Tamworth with construction of same funded in large part by the people of Tamworth. After the PCCC was taken over by the State Government the head office was "sold" to the then Tamworth City Council. Council has the view that this is very clearly an example where the Tamworth residents have in effect paid for a building twice and in so doing have part funded the cost of establishing the new service provider.

2.3 Reimbursement of Dividend Payments

In accordance with guidelines prepared by the NSW Office of Water each year Council pays a dividend from the water and sewer funds into the general fund.

In 2009/2010 the total dividend paid was \$1,176,390 (\$558,000 sewer, \$618,390 water).

Council has prepared its forward financial forecasts for the general fund based on receiving a similar level of dividend payments each financial year. Should water and sewer activities be taken from Council then Council would be seeking to be compensated for the lost income.

Comment [a3]: Bruce the final dividend paid in 2009/2010 was water 618,390 and sewer 558,000

2.4 Payment of Dividends

The report is silent on the details of how the new State owned authorities would be operated however Council would object strongly to any suggestion that dividends be paid from each of the water authorities to the State. To go from the present arrangement where all funds paid by rate payers are utilised within the Council area that they are raised to withdrawing funds raised in the regional area for use by the State government outside of that area is not equitable.

2.5 Strategic Management of Water

All local Councils are also responsible for the management of storm water, with the majority of regional councils also responsible for the provision of water and sewer services within their local government areas.

Having responsibility for all 3 services allows Councils to make strategic decisions in relation to water demand management including the use of storm water and/or effluent to offset potable water use and drought management

Under present arrangements Council can identify planning issues, capacity and other demand issues and plan accordingly using a whole of Council approach. Indeed the NSW State Government requires Councils to prepare an Integrated Water Cycle Management Plan which looks at the effective and efficient use of storm water, water and sewage. The proposal to remove water and sewer functions to a State Owned corporation would result in a disjointed approach to managing these key considerations and remove Council's ability to plan strategically, particularly if the priorities of the regional water authority do not match those of the local Council.

2.6 Economies of Scale

The report suggests that there may be benefits of economies of scale from increasing the size of the water authorities.

From first hand experience Council can advise that the expected savings may not eventuate. In metropolitan areas it is simply a matter of increasing the length of reticulation to service new demand. In regional areas water and sewer systems are discrete and very often remote from one another and therefore there may be no obvious savings from simply enlarging the number of discrete systems operated by the authority.

As an example in 2009/2010 for the cost to Tamworth Regional Council to produce a kilolitre of water in various centres is shown below.

Location	Treated Water Produced Megalitres	Cost to produce (\$/Kilolitre)
Tamworth	8,606	\$0.45
Nundle	47	\$4.75
Attunga*	47	\$1.94
Bendemeer	27	\$4.11
Manilla	432	\$0.97
Barraba	159	\$1.80
Moonbi/Kootingal*	335	\$0.86

* partially treated

And for wastewater in 2009/2010

Location	Effluent Produced Megalitres	Cost to produce (\$/Megalitre)
Tamworth	4,423	\$695
Manilla	155	\$2,572
Barraba	153	\$1,803
Kootingal	95	\$1,906

Whilst it cannot be argued that a larger authority may have better success at attracting and retaining professional staff to manage the systems and administration overheads will be reduced, there is still the need to have staff on the ground in various centers to ensure water and sewer services are being provided in compliance with the necessary standards, guidelines and license requirements. These staff are a cost which cannot be avoided and because of the small size of the systems result in higher costs.

2.7 Cross Subsidies

Council is concerned that creating larger regional authorities will lead to greater cross subsidization between the communities served by water and/or sewer by the authority particularly if the regional area contains one large population centre and a number of smaller centres.

Once again Tamworth Regional Council has first hand experience of cross subsidies. The village of Bendemeer (population 220) is a small village within the Tamworth Regional Council area. Prior to amalgamation Bendemeer was part of the former Parry Shire Council. Parry Shire set up a separate water fund for the provision of reticulated water to Bendemeer which was reliant on income from the sale of water to only Bendemeer residents. Bendemeer had a poor quality raw water supply. On 3 occasions Parry Shire Council approached the residents of Bendemeer with a proposal to improve the quality of treated water supplied in the village including an estimated cost and the effect this cost would have on water charges within the village to pay for the proposed improvements. On each occasion the village rejected the proposal to improve treated water quality on the basis of cost.

Following amalgamation Tamworth Regional Council introduced one water fund across the whole Council area. This meant that the price for treated water was the same regardless of where you lived in the Council area and any income from the sale of water in Tamworth (population approx. 45,000) and other towns and villages including Bendemeer was placed in a common water fund.

Council has now upgraded the treated water quality at Bendemeer, with no increase in charges levied on the residents of Bendemeer to pay for the capital or operating costs associated with this work. Clearly the residents of all the other towns and villages within TRC connected to treated water and in particular the residents of Tamworth are subsidising the cost of the improved treated water supply at Bendemeer.

One of the primary reasons why some smaller communities may not be complying with guidelines is because of insufficient funds generated within the small community to properly address various issues. This will not change under the new proposal unless the regional authorities create common funds. Council believes this will lead to cross subsidies between centres. In the case of Tamworth Regional Council, Tamworth contains approximately 50% of the total population within the proposed authority area based on the Namoi Catchment and as such Council is very concerned that the level of subsidy flowing from Tamworth to other towns and villages will be untenable.

2.8 Local Community Representation and Engagement

Council believes that local community representation and engagement will be compromised under the regional authority model. For instance based on the Namoi Catchment area if the head office of the new authority was based in Tamworth there would be a distance of over 350 kilometers to the western most town within the new authority's area.

The vast size and time taken to travel to these centres must have a detrimental effect on consultation between local residents and the Board (the structure of a regional authority is not detailed in the review) and/or senior executive of the new Authority.

Under a local Council structure residents are able to talk direct to a local Councilor and take some comfort that their concerns will be raised at the highest level possible. Council is concerned that the same level of representation will not be available to local residents under the proposed regional authority.

3 OTHER IMPACTS AND CONCERNS

3.1 Local community impacts

Council believes in the case of TRC that local communities are well served by a local Council, operating within current funding limits, providing water and sewerage services.

Under the new regional authority the following impacts are likely to arise;

- The current one-stop shop for local services including water and sewerage services would no longer exist, and customers would be required to deal with two separate organisations. It is also very doubtful if a water utility would be able to

cost effectively provide customer service centers in the towns and villages such as Barraba, Manilla, and Nundle. The loss of the local one-stop shop and not having a local outlet for the water utility would be an inconvenience for residents in the towns and villages.

- The level of service for water and sewerage services currently provided by TRC to the towns and villages may not be maintained at the current level by the regional authority given the current pricing structure. The level of service may decrease. Or alternatively the level of service remains the same and the price increased to recover the costs.
- A new regional authority may not be as supportive of improving the services in the smaller towns and villages due to the cost involved, which may lead to the decline of these smaller centers.
- Anyone submitting a development or subdivision application would have to make application to the new water utility, whereas under the current arrangements this is dealt with by TRC (one-stop shop). The same would apply for inspections during the construction phase. This adds “red tape” to the development and subdivision approval and construction process and may increase the time to undertake a project. The same would apply to conveyance activities associated with land transactions where certificates are required, adding more “red tape”, cost and duplication.
- The new regional authority may not be as responsive and pro-active in planning and providing lead-in water and sewerage infrastructure required for regional development. Whereas a general purpose regional Council is more likely to be in tune with the local community and may be more inclined to look holistically at regional development, particularly when it has the overall responsibility for regional planning and development.
- The cost of providing services to the local community would be increased as the overheads currently collectively paid for by the General, Water & Sewer Funds would have to be paid for exclusively by the General Fund. For example TRC would still need to operate customer service centers and works depots in Tamworth, Manilla, Barraba and Nundle.

4 SUMMARY OF KEY ISSUES

Through the amalgamation process Council has first hand experience at the provision of water and sewer services to not only a large regional centre but also to smaller centres which, prior to amalgamation may not have been meeting accepted best practice guidelines. Therefore Council is qualified to comment on the proposed governance reforms.

The amalgamation of five general purpose Councils into one general purpose regional Council (TRC) on a sub-catchment basis (upper Namoi) has allowed compliance with best practice requirements and to meet the challenge of providing water and sewerage services for the Tamworth region well into the future. Council therefore considers that there would be much more to be lost than gained in creating a separate independent water authority to service the wider Namoi region.

It is Council's preference that water supply and sewerage services in the Tamworth region continue to be provided by TRC, as this provides a streamlined, seamless and cost effective method for providing all services (including water and sewerage) in an integrated strategic manner to the regional area. It also allows local ownership and control of the water and sewerage assets.

The removal of water and sewerage operations would significantly impact Council's capacity to prudently and strategically manage all aspects of water cycle management, including storm water, reticulated water, sewerage and wastewater, demand management, drought management, town planning, regional development and subdivision and development control.

If water and sewerage functions were removed from TRC it would have a serious impact on Council's general fund operations which currently shares most resources with the water and sewer funds. The water and sewerage funds directly contribute \$4.134 million annually to the general fund, of which \$1.176 million pa is in the form of dividends. The \$4.134 million pa represents 19% of the general fund rate revenue.

Including the \$4.134 million direct contributions, the water and sewerage funds contribute approximately \$8 million to \$10 million annually to the general fund for the provision of internal services and specific water and sewerage operation, construction and maintenance works.

Within the consolidated TRC 2009/2010 budget the water & sewer funds represent 32% of TRC total operating income and 47% of operating & capital expenditure. This represents a significant part of the Council budget and resources and if removed would impact the viability of TRC and the ability to effectively provide services to the community, particularly in the smaller towns and villages.

Should water and sewerage services be removed from Council provision will need to be put in place to compensate Council's general fund for the loss of revenue including dividend payments.

From the customers point of view the removal of water and sewerage services from TRC has some serious consequences including high cost of duplication of another regional

organization, loss of local ownership of water and sewerage assets, loss of a one-stop shop for all local services, introduction of “red tape” with subdivision and development approvals, potential reduction in levels of service along with increases in charges. A separate water utility may not be as focused on regional development and integrated water cycle management as would a general purpose regional council.

Clearly the removal of the provision of water and sewer services from general purpose councils would have a domino effect on local government across NSW and can not be considered in isolation. The fall-out from any wholesale adjustments to water and sewer service provision across regional NSW must be considered and transitional measures put in place to make local government viable as well as protect the rights of staff and wellbeing of the local community.

Finally, Council has grave concerns about the recommended increase in the boundaries of the new authority that match water catchments. Council believes this will lead to greater level of subsidy for the provision of water and sewer services in the smaller centers by the larger centers and does not believe that effective community consultation or representation can be achieved in an organisation where, in the case of the Namoi Catchment, the distance from the eastern to the western edge of the catchment is in excess of 400 kilometers.