



Central Coast Council
Business Paper
Extraordinary Council Meeting
07 September 2021





COMMUNITY STRATEGIC PLAN 2018-2028

ONE – CENTRAL COAST IS THE COMMUNITY STRATEGIC PLAN (CSP) FOR THE CENTRAL COAST LOCAL GOVERNMENT AREA

ONE – CENTRAL COAST DEFINES THE COMMUNITY'S VISION AND IS OUR ROADMAP FOR THE FUTURE

ONE – CENTRAL COAST BRINGS TOGETHER EXTENSIVE COMMUNITY FEEDBACK TO SET KEY DIRECTIONS AND PRIORITIES

One - Central Coast will shape and inform Council's business activities, future plans, services and expenditure. Where actions are the responsibility of other organisations, sectors and groups to deliver, Council will work with key partners to advocate on behalf of our community.

Ultimately, every one of us who live on the Central Coast has an opportunity and responsibility to create a sustainable future from which we can all benefit. Working together we can make a difference.

RESPONSIBLE

WE'RE A RESPONSIBLE COUNCIL AND COMMUNITY, COMMITTED TO BUILDING STRONG RELATIONSHIPS AND DELIVERING A GREAT CUSTOMER EXPERIENCE IN ALL OUR INTERACTIONS.

We value transparent and meaningful communication and use community feedback to drive strategic decision making and expenditure, particularly around the delivery of essential infrastructure projects that increase the safety, liveability and sustainability of our region. We're taking a strategic approach to ensure our planning and development processes are sustainable and accessible and are designed to preserve the unique character of the coast.



Good governance and great partnerships

G2 Communicate openly and honestly with the community to build a relationship based on transparency, understanding, trust and respect

There are 5 themes, 12 focus areas and 48 objectives

COMMUNITY STRATEGIC PLAN 2018-2028 FRAMEWORK

All council reports contained within the Business Paper are now aligned to the Community Strategic Plan. Each report will contain a cross reference to a Theme, Focus Area and Objective within the framework of the Plan.



Meeting Notice

**The Extraordinary Council Meeting
of Central Coast Council
will be held Remotely – Online
on Tuesday 7 September 2021 at 12.00pm,
for the transaction of the business listed below:**

1 Procedural Items

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2 Reports

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stormwater drainage prices from 1 July 2022 6

David Farmer
Chief Executive Officer

Item No: 1.1
Title: Disclosure of Interest
Department: Corporate Affairs

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Reference: F2021/00035 - D14815765



Recommendation

That Council and staff now disclose any conflicts of interest in matters under consideration by Council at this meeting.

Chapter 14 of the *Local Government Act 1993* ("LG Act") regulates the way in which the councillors and relevant staff of Council conduct themselves to ensure that there is no conflict between their private interests and their public functions.

Section 451 of the LG Act states:

- "(1) A councillor or a member of a council committee who has a pecuniary interest in any matter with which the council is concerned and who is present at a meeting of the council or committee at which the matter is being considered must disclose the nature of the interest to the meeting as soon as practicable.*
- (2) The councillor or member must not be present at, or in sight of, the meeting of the council or committee:*
 - (a) at any time during which the matter is being considered or discussed by the council or committee, or*
 - (b) at any time during which the council or committee is voting on any question in relation to the matter.*
- (3) For the removal of doubt, a councillor or a member of a council committee is not prevented by this section from being present at and taking part in a meeting at which a matter is being considered, or from voting on the matter, merely because the councillor or member has an interest in the matter of a kind referred to in section 448.*
- (4) Subsections (1) and (2) do not apply to a councillor who has a pecuniary interest in a matter that is being considered at a meeting, if:*
 - (a) the matter is a proposal relating to:*
 - (i) the making of a principal environmental planning instrument applying to the whole or a significant part of the council's area, or*

- (ii) *the amendment, alteration or repeal of an environmental planning instrument where the amendment, alteration or repeal applies to the whole or a significant part of the council's area, and*
- (a1) *the pecuniary interest arises only because of an interest of the councillor in the councillor's principal place of residence or an interest of another person (whose interests are relevant under section 443) in that person's principal place of residence, and*
 - (b) *the councillor made a special disclosure under this section in relation to the interest before the commencement of the meeting.*
- (5) *The special disclosure of the pecuniary interest must, as soon as practicable after the disclosure is made, be laid on the table at a meeting of the council and must:*
 - (a) *be in the form prescribed by the regulations, and*
 - (b) *contain the information required by the regulations."*

Further, the Code of Conduct adopted by Council applies to all councillors and staff. The Code relevantly provides that if a councillor or staff have a non-pecuniary conflict of interest, the nature of the conflict must be disclosed as well as providing for a number of ways in which a non-pecuniary conflicts of interests might be managed.



Item No: 2.1
Title: Central Coast Council's pricing proposal to IPART for its water, sewerage and stormwater drainage prices from 1 July 2022
Department: Water and Sewer

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Reference: F2004/06782 - D14818151
Author: Kate Gibbs, Executive Support Officer
Manager: Luke Drury, Section Manager Assets and Planning
Executive: Jamie Loader, Director Water and Sewer
David Farmer, Chief Executive Officer

Recommendation

- 1** *That Council endorses the process for the preparation of the draft pricing proposal to the Independent Pricing and Regulatory Tribunal (IPART) for its water, sewerage and stormwater drainage prices from 1 July 2022.*
- 2** *That Council delegates approval to the Chief Executive Officer to sign off the final pricing proposal and Council's Annual Information Return (AIR), in line with IPART's pricing submission guidelines.*
- 3** *That Council resolve, pursuant to section 11(3) of the Local Government Act 1993, that Attachments 1-11 remain confidential in accordance with section 10A(2)(d)(i) of the Local Government Act as it contains commercial information of a confidential nature that would, if disclosed, prejudice the commercial position of the person who supplied it and because consideration of the matter in open Council would, on balance, be contrary to the public interest as it would affect Council's ability to obtain value for money services for the Central Coast community.*

Report purpose

To allow Council to consider the pricing proposal to the Independent Pricing and Regulatory Tribunal (IPART) for Council's water, sewerage and stormwater drainage prices to apply from 1 July 2022.

Executive Summary

IPART sets the maximum prices for Council's water, sewerage and stormwater drainage services. Council's current IPART price determination is due to end on 30 June 2022. Council is therefore required to participate in IPART's standard water review process and

2.1 Central Coast Council's pricing proposal to IPART for its water, sewerage and stormwater drainage prices from 1 July 2022 (contd)

submit a proposal for pricing its water, sewerage and stormwater drainage services from 1 July 2022.

Council's 2022 pricing proposal describes its performance over the current regulatory period as well as its planned expenditure for the next period.

The pricing proposal includes key information related to:

- Operational expenditure
- Capital investment
- Community engagement
- Forecast demand
- Forecast connections and customer types
- Levels of service
- Pricing of trade waste and ancillary services

This information is used by IPART to determine Council's revenue requirements and set the associated prices for water, sewerage and stormwater drainage services to recover the required revenue for the next determination period.

IPART significantly reduced Council's revenue for water, sewerage and drainage services in its 2019 Determination. These reductions are not financially sustainable, while providing the required level of service to the community. Council's pricing proposal seeks to increase its revenue to allow the efficient long-term provision of water, sewerage and stormwater drainage services to the community. This would result in a return to prices for these services similar to 2018-19 levels with an allowance for subsequent inflation.

Consideration of confidentiality

The attachments to this report must be kept confidential as IPART's standard consultation process for the price determination is that Council submits its proposal to IPART and IPART will then publish Council's price proposal on its website. It is not appropriate for Council to publish this information prior to it being submitted to IPART.

Background

In determining prices for Council's water, sewerage and stormwater drainage services, IPART aims to ensure that prices reflect the efficient costs of providing the monopoly services, while meeting broader regulatory requirements, as well as customer preferences and willingness to pay.

When reviewing Council's prices, IPART's key steps and decisions are as follows:

- 1 Decide on the length of the regulatory period
- 2 Review expenditure and set Council's required revenue

2.1 Central Coast Council's pricing proposal to IPART for its water, sewerage and stormwater drainage prices from 1 July 2022 (contd)

- 3 Determine pricing structures eg service charges, usage charges
- 4 Set prices that allow Council to collect its required revenue
- 5 Consider the implications of these prices and adjust the prices where necessary

IPART's price review process requires Council to submit its pricing proposal in September 2021. Once IPART receives Council's pricing proposal, it will publish Council's proposal on its website.

IPART's review of Central Coast Council's water prices will run from September 2021 to May 2022 and will include:

- Public consultation processes
- Reviews of Council's historic and proposed expenditure
- Analysis, considerations and decisions made by the IPART Tribunal
- Release of draft expenditure reviews and pricing determinations for comment
- Release of a final determination.

Current Status

As outlined in this report, Council's pricing proposal has been developed and is now ready to submit to IPART for their review.

Report

Legislative framework

Central Coast Council is governed by an extensive range of legislation, regulation and industry guidelines in relation to its water, sewerage and stormwater services. Unlike Sydney Water and Hunter Water, Council does not have an operating licence that sets performance standards, outlines compliance requirements and establishes a customer contract. Instead, the Council is under a dual-regulatory framework, where:

- 1 It is a water supply authority under the Water Management Act 2000 (NSW) (WM Act) and
- 2 It is a Council-owned water utility under the Local Government Act 1993 (NSW)

IPART sets the maximum prices the Council can charge for its monopoly water, sewerage and stormwater drainage services, under the Independent Pricing and Regulatory Tribunal Act 1992 (NSW) (IPART Act). The Council must not charge prices above IPART's determined maximum prices, and cannot charge prices below IPART's determined prices without approval from the Treasurer.

2.1 Central Coast Council's pricing proposal to IPART for its water, sewerage and stormwater drainage prices from 1 July 2022 (contd)

IPART's methodology for setting prices

To decide on the amount of revenue to be recovered, IPART first calculate the Council's notional revenue requirement (NRR) for the period of the determination. The NRR represents IPART's view of the total efficient costs of providing Council's regulated water, sewerage and stormwater drainage services in each year of the determination period.

IPART calculate a separate NRR for water, sewerage and stormwater drainage services, to ensure customers who do not have access to one or more of the services do not pay for them. Then, for each of the services, IPART considers an appropriate combination of usage (variable) and service (fixed) charges to recover the required revenue from customers. To achieve this, they need to forecast demand for services over the period.

IPART uses its standard 'building block' method to calculate the NRR. This method involves estimating, for each year of the determination period and is shown in Figure 1.



Figure 1 IPART's building block model

2.1 Central Coast Council's pricing proposal to IPART for its water, sewerage and stormwater drainage prices from 1 July 2022 (contd)

IPART's price review process

When determining the Council's NRR and required prices, IPART follows a standard review process. The first step in that process is when IPART invites Council to submit a pricing proposal, which outlines its required revenue needs and proposed prices.

Once Council's pricing proposal is submitted, IPART will review the proposal and undertake a public consultation process, giving the community an opportunity to provide feedback, encouraged by Council.

IPART will then hold a Public Hearing in November 2021 with locations and times advertised in local newspapers, on IPART's website and via Council communication channels.

IPART will release a draft Report and Determination in March 2022 detailing proposed prices. The community has a further opportunity to respond to the draft reports by making submissions to IPART.

Following consideration of submissions, IPART will release their Final Report and Determination on prices that will come into effect on 1 July 2022.

Figure 2 shows IPART's standard consultation process.

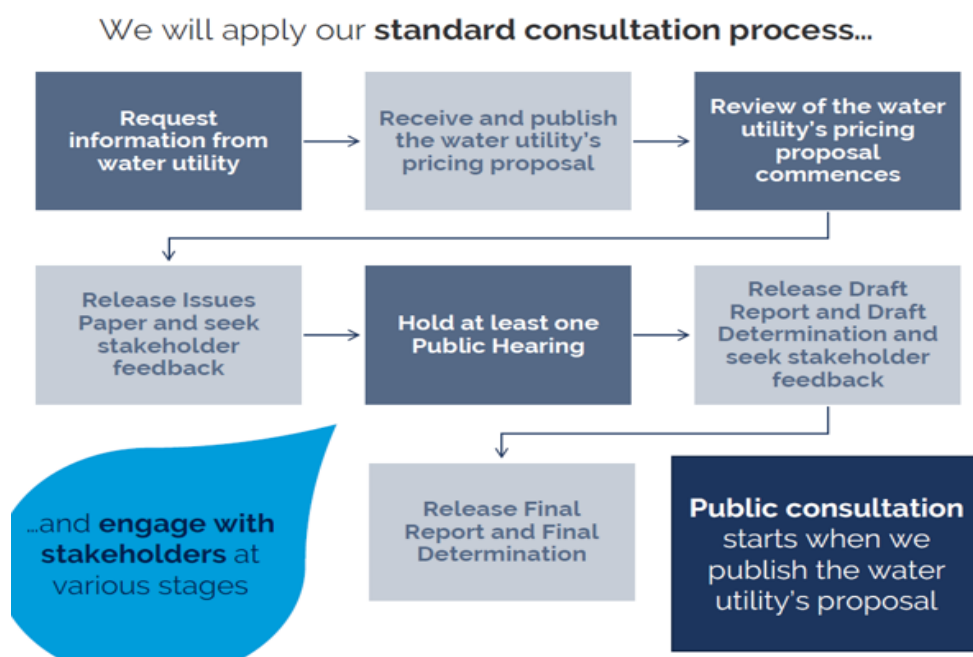


Figure 2 IPART's consultation process

2.1 Central Coast Council's pricing proposal to IPART for its water, sewerage and stormwater drainage prices from 1 July 2022 (contd)

Council's pricing proposal

Council has calculated water, sewer and stormwater drainage prices that allow for the recovery of its required revenue. The proposed prices would allow Council to recover the revenue between residential and non-residential customers via the fixed and usage charges for water and sewer services and via standard charges for stormwater drainage services. This reflects IPART's best practice principles and past IPART decisions.

For this price review, Council has aimed to present its pricing proposal in a format that is easier to read, making it more accessible for customers, community members, stakeholders and IPART.

The objective is to allow a better understanding of the proposal, resulting in broad participation for the review process.

Council's submission consists of ten Technical Papers relevant to IPART's proposal guidelines.

- Technical Paper 1 - Engaging with our customers and community
- Technical Paper 2 - Service levels
- Technical Paper 3 - Form of regulation
- Technical Paper 4- Capital expenditure
- Technical Paper 5 - Operating expenditure
- Technical Paper 6 - Revenue and financial metrics
- Technical Paper 7 - Demand for services
- Technical Paper 8 – Pricing water, sewerage and stormwater drainage
- Technical Paper 9 – Pricing other services
- Technical Paper 10 – Council's role, operations and operating context

The ten Technical Papers contain the detailed information on specific elements of the proposal including operational expenses, capital expenses and pricing considerations.

Consultation

In developing its proposal, Council has undertaken considerable engagement with its customers. Communication has been thorough and transparent, using the specialist services of Woolcott Research & Engagement to ensure we engage effectively with the community.

Council's community consultation included:

- A structured (representative) survey among 510 Council residents aged 18+
- An opt-in online survey, open to Council residents through the Council's Your Voice Our Coast (YVOC) website with 620 respondents
- A phone survey of small to medium (SME) sized business decision makers with 120 respondents (labelled SME)

2.1 **Central Coast Council's pricing proposal to IPART for its water, sewerage and stormwater drainage prices from 1 July 2022 (contd)**

- Two qualitative group discussions amongst residents aged 18+, conducted via Zoom
- Two deliberative engagement forums run in July 2021 with approximately 80 participants

The deliberative engagement forum findings show a large majority of all participants were supportive of the service options that would lead to improvements in their water quality, sewerage services, as well as in drainage/flood mitigation measures.

Overall, Council's IPART community engagement process identified key areas the community wants Council to focus on:

- Water quality and its reliability
- The environment
- A reduction in sewer overflows
- Maintenance of our water and sewer pipe network
- Being prompt in our response to incidents
- Keeping prices to a low and affordable level

The feedback received from these customers has been considered when developing Council's capital and operational expenditure proposals for this pricing proposal. Customer feedback has also informed Council's proposed service levels for this pricing proposal.

Financial Considerations

At its meeting held 19 October 2020, Council resolved the following:

1108/20 That any motions put before Council for the remainder of this term of Council that have financial implications require the Chief Executive Officer to provide a report on how those additional costs will be met.

The following statement is provided in response to this resolution of Council.

In the 2019 IPART determination, the requested operational expenditure was reduced significantly. In total, a reduction of \$37.6M (\$2021-22) over the three years from 2019-22.

The previous pricing proposal provided to IPART lacked sufficient evidence to support Council's proposed pricing, and IPART provided significant feedback to improve this pricing submission. The 2019 determination has resulted in significant challenges for the proper provision of water, sewerage and stormwater drainage services over the current determination period and is considered unsustainable.

Council has integrated IPART's feedback and is providing a 2022 pricing proposal comprised of prudent and efficient expenditure to meet customer needs. Council propose to recover the additional required revenue for the efficient provision of water, sewerage and stormwater

2.1 Central Coast Council's pricing proposal to IPART for its water, sewerage and stormwater drainage prices from 1 July 2022 (contd)

drainage services to the community over the long term. This would result in a return to prices for these services similar to 2018-19 levels with an allowance for subsequent inflation.

Link to Community Strategic Plan

Theme 4: Responsible

Goal H: Delivering essential infrastructure

R-H4: Plan for adequate and sustainable infrastructure to meet future demand for transport, energy, telecommunications and a secure supply of drinking water.

Risk Management

In line with IPART's pricing submission guidelines, Council has undertaken an independent quality assurance check (QA) of its pricing submission. The QA check is designed to confirm:

- Information in the pricing submission is consistent with the annual information return (AIR)
- Figures in the pricing submission are accurate and correctly sourced
- The pricing submission addresses all the information IPART has requested
- The pricing submission includes proposed prices for all Council's regulated services.

Options

- Option 1 Defer the endorsement of the Pricing Proposal to IPART for the delivery of water, sewerage and stormwater drainage services. If Council defers its pricing submission, IPART may 'stop the clock' meaning that it would extend the review timetable by the length of the delay. This may result in the determination not being made in time to allow Council to levy fees and charges in the 2022/23 financial year.
- Option 2 Endorse the draft pricing proposal to IPART for the delivery of water, sewerage and stormwater drainage services and delegate approval to the Chief Executive Officer to sign off the final pricing proposal and annual information return (AIR), in line with IPART's pricing submission guidelines. **This is the recommended option.**

2.1 Central Coast Council's pricing proposal to IPART for its water, sewerage and stormwater drainage prices from 1 July 2022 (contd)

Critical Dates or Timeframes

A summary of the IPART price review process has been provided in this report. An overview of IPART's timeframe for its review of Council's pricing proposal is provided in Figure 3.



Figure 3 Timeline for the CCC water price review

Attachments

1	CONFIDENTIAL - Proposal Summary FINAL -	D14829324
2	CONFIDENTIAL - Technical Paper 1 - Engaging with our Customers and Community FINAL -	D14829327
3	CONFIDENTIAL - Technical paper 2 Service Levels FINAL -	D14829331
4	CONFIDENTIAL - Technical paper 3 Form of regulation FINAL -	D14829334
5	CONFIDENTIAL - Technical paper 4 Capital expenditure FINAL -	D14829339
6	CONFIDENTIAL - Technical paper 5 operational expenditure FINAL -	D14829692
7	CONFIDENTIAL - Technical paper 6 revenue requirement and financial metrics FINAL -	D14829344
8	CONFIDENTIAL - Technical Paper 7 - Demand for Services FINAL -	D14829347
9	CONFIDENTIAL - Technical paper 8 pricing of water sewerage and stormwater services FINAL -	D14829350
10	CONFIDENTIAL - Technical Paper 9 - Pricing of Other Services FINAL -	D14829354
11	CONFIDENTIAL - Technical Paper 10 Council's Role - Operations and Operating context FINAL -	D14829358