

**INTERIM GENERAL MANAGER**

**ATTACHMENT A**

**LOCAL GOVERNMENT REFORM -  
MIDCOAST WATER STRUCTURE**

**EXTRAORDINARY MEETING**

**21 DECEMBER 2016**

**Meeting Date:** 21 December 2016

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**Item:** 2  
**Subject:** Local Government Reform and MidCoast Water structure  
**Author:** Ken Gouldthorp, General Manager

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### **Purpose**

To determine the future structure of MidCoast Water post the implementation of Local Government Reform establishing Mid-Coast Council and merging the operational areas of the former Gloucester Shire Council, Greater Taree City Council and Great Lakes Council.

### **Executive summary**

The future structure of MidCoast Water has been the subject of submissions and consultation with State Government Agencies since the announcement of the merger proposal of MidCoast Waters former three (3) constituent councils on 9 March, 2016. This consultation has resulted in future options being narrowed to two (2). Specifically:

Option 1 – Local Government owned corporation

Option 2 – Dissolve MidCoast County Council and merge the water and sewerage function (trading as MidCoast Water) as a business unit into Mid-Coast Council.

Option 1 is consistent with the principles of urban water reform that commenced with the National Water Initiative/COAG Reform in the mid 1990's, however the maintenance of a separate entity incurs a cost that can be avoided under Option 2.

It is debatable whether MidCoast Water is currently of sufficient size and scale to justify the additional avoidable cost of remaining a separate entity. Forming a conclusion on this matter is made difficult by the fact that while the costs that can be avoided under Option 2 can be clearly quantified, the benefits of Option 1 are more subjective and difficult to quantify ex ante.

MidCoast Water is currently facing financial sustainability challenges in the short to medium term as a result of high debt that it has incurred delivering a \$315 million water and sewerage capital infrastructure programme since its establishment in 1997 together with reduced water consumption and 15% increase in staffing between July 2014 and March 2016.

Option 2 will deliver reduced executive management costs and deliver efficiencies through shared back office services and systems. This is consistent with the principles underpinning the State Governments Local Government Reform Policy. It will also do more in the short to medium term to mitigate increasing water and sewerage pricing pressures. Consequently, on balance, Option 2 is recommended.

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### **Recommendation**

That MidCoast County Council be dissolved and its assets and operations (trading as MidCoast Water) be merged as a separate business unit into MidCoast Council.

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## Background

Mid-Coast Council (MCC) was formed by proclamation on 12 May, 2016 with its area of operation covering the region previously serviced by the former Councils of Gloucester Shire, Greater Taree City and Great Lakes. This operating area directly mirrors that of MidCoast County Council (MidCoast Water or MCW).

The establishment of MCC followed the referral of a merger proposal by the Minister for Local Government, public consultation and the completion of a Council Boundary Review/Merger Proposal report by Dr Ian Tiley as delegate of the Chief Executive of the Office of Local Government. MCW, Great Lakes Council (GLC) and Gloucester Shire Council (GSC) provided submissions to the review supporting the retention of MCW as a separate self-governing water and sewerage utility. Greater Taree City Council (GTCC) proposed that MCW become a business unit of the merged Council in order to deliver efficiencies through shared back office services and systems.

Dr Tiley concluded that the outcomes proposed to be achieved by MCW remaining a separate self-governing water and sewerage utility could in fact be achieved through either remaining as a separate entity or becoming a business unit in the merged Council. He further stated that *'The delegates experience is that North Coast Water became a business unit of the 2004 merged Clarence Valley Council, with very successful outcome'*.

The merger proposal report recommended:

### ***Recommendation 6***

*That a Council business unit, or alternatively a council-owned water and sewerage corporation, with a small board of directors having appropriate skills and expertise, would be suitable models for the merged Council for total water cycle management.*

MidCoast County Council was formed in 1997, after a two-year review into the water functions of electricity distributors. The review committee identified the following key issues in the review of the water function:

- Integrated resource management and separation of the functions of the resource manager, regulator and service provider
- Community involvement and input in decision making processes for provision of water supply and sewerage services
- Commercial provision of services and pricing policies which reflect costs, with identification and removal of cross subsidies.

Since its establishment MCW has focused on improving water and sewerage infrastructure to improve water quality and reliability together with improving environmental outcomes. In July 2011 following the Armstrong and Gellatly report, MCW took on water and sewerage responsibilities of the former GSC. MidCoast Water is the only County Council in NSW providing integrated water cycle management including potable water, sewerage, water recycling and catchment management activities.

Attachment 1 provides a list of MCW's achievements including the delivery of \$315 million in new water and sewerage infrastructure over the past 19 years. While there is no doubt that this infrastructure has significantly improved water quality and environmental outcomes, it has burdened the organisation with high debt.

## MidCoast Water's financial sustainability position

The 2011 'Promoting Best Practice Programme Review Report of MidCoast County Council' completed by the Office of Local Government stated:

*Council has relied heavily on debt to fund its expansion, including the ambitious Capital works programme. Several indicators suggest that this reliance is unsustainable and is putting pressure on Council's financial position, now and into the future.*

In particular, the report raised concerns on the debt servicing ratio which exceeded 40% in comparison to a benchmark of 20%.

In December 2014 at the request of the MCW Board, TCorp completed a financial assessment and sustainability report. The report concluded that MCW's financial sustainability position was moderate with a negative outlook. In forming this assessment TCorp noted the impact of the high debt (peaking at \$250 million) and that MCW had reported an operating deficit in each year of the five (5) years of the review period when capital grants and contributions were excluded. This deficit had reduced from \$20.3 million in 2012 to \$9.5 million in 2014. At the time MidCoast Water had continued to forecast operating deficits until 2022 (with capital grants and contributions excluded) although with an improving trend and ultimately forecasting a surplus of \$3.8 million in 2024. Following TCorp's review, the MCW Board implemented a strategy to reduce debt (which now stands at \$185 million) utilising available cash reserves. While this has reduced debt servicing costs and the debt servicing ratio, it has also reduced liquidity.

Following the appointment of the current General Manager of MCW in March 2016, a further financial review has been completed. This review concluded that the negative outlook forecast by TCorp has subsequently occurred primarily as a result of the high burden of debt that was locked into fixed interest rates prior to the current low interest rate environment, a 15% increase in staff numbers between 1 July, 2014 and March 2016 and reduced water consumption.

The 2016 review concluded that MCW's current situation is not financially sustainable and in order to address this situation the following actions would be taken:

### Immediate

- Undertake a debt review
- Review annual budget with strict discretionary expenditure
- Apply for Ministerial consent for internal loans from the sewerage and water fund

### Short/Medium term

- Review service delivery methodology across the entire organisation
- Align staff resources and structure to the above
- Understand cost base of products like service delivery
- Review current and future revenue streams
- Progressively address governance gaps and improvements
- Intravitaly update LTPF as financial sustainability strategies are identified and implemented

While the above actions aim to reduce costs, the fact that a high portion of these are locked in with fixed interest and expanded existing infrastructure assets, there is substantial upward pressure on prices; particularly water prices. This will be exacerbated in 2018 with the completion of the \$35 million Nubiic Aquifer project. This project provides a level of water security with a secondary water source within the Manning scheme. However with the existing Bootawa Treatment Plant (completed in 2012 at a cost of \$80 million) operating on average at less than 50% of capacity; the Nubiic system increases costs without increasing water sales.

### **MidCoast Water - Future Structure Options**

MidCoast Waters submission to the merger proposal report completed by Dr Tiley identified two (2) options:

Option 1: Separate Local Government owned water and sewerage utility

Option 2: Merge MidCoast Water with the merged Councils of Greater Taree, Great Lakes and Gloucester Shire Councils.

The submission identified that Option 1 could include MidCoast Water remaining as a County Council, becoming a Local Government joint organisation, or becoming a Local Government owned Corporation. Internal structures for Option 2 were not identified in the submission.

### **Consultation**

Subsequent to the establishment of MCC there has been ongoing consultation between the interim General Manager of MCC and General Manager MCW plus a number of meetings with the relevant State Government agencies to discuss the structural options for future delivery of water and sewerage services within the MCC/MCW operating area. These include:

- 2 June, 2016 – Meeting with Chief Executive, Office of Local Government.
- 2 June, 2016 – Meeting with the Minister for Primary Industries and Minister for Lands and Water.
- 2 August, 2016 – Combined meeting of Chairs/General Managers NSW County Councils and the Minister for Local Government.
- 1 December, 2016 – Meeting with the Minister for Local Government, Chief Executive - Office of Local Government and Executive Director - Local Government Reform, Department of Premiers and Cabinet.

Following the completion of the Merger Proposal Report, proclamation of MCC and subsequent consultation between MCW, MCC, Office of Local Government and the Department of Premier and Cabinet - Local Government Reform unit; the options have been narrowed specifically to Option 1 establishing MidCoast Water as a Local Government owned Corporation or Option 2 dissolving MidCoast County Council and transferring its assets and operations to MCC.

### **Option 1 – Local Government owned corporation**

The main arguments for establishing MCW as a separate Local Government owned Corporation are:

1. Consistency with national and state urban reform reports and progress which generally support water utilities being separate and commercially focused

2. Benefits from organisational specialisation;
3. Benefits from a skill based expertise Board; in particular in driving asset management utilisation and efficiency.

The following table provides a key urban water reform summary

Date	Reform
1994 and 2004	<p><b>National Water Initiative (NWI) – COAG reforms</b></p> <p>Through the NWI, governments across Australia agreed on actions to achieve a more cohesive national approach to the way Australia manages, measures, plans for, prices, and trades water.</p> <p>The 2004 intergovernmental agreement set out to achieve a nationally compatible market, regulatory and planning based system—one that manages surface and groundwater resources for rural and urban use, and optimises economic, social and environmental outcomes.</p> <p>It represents a shared commitment by governments to increase the efficiency of Australia's water use, leading to greater certainty for investment and productivity, for rural and urban communities, and for the environment</p>
2011	<p><b>Urban Water in Australia: future directions, National Water Commission</b></p> <p>Recommended urban water utility reform along the lines of the regionalisation and corporatisation undertaken in Tasmania and Victoria</p>
2011	<p><b>Urban Water Sector – Productivity Commission Inquiry Report No.55, Productivity Commission</b></p> <p>Recommended that utilities in NSW and Queensland be organised as county councils, regional water corporations or regional alliances</p>
2010 and 2016	<p><b>Review of Regional Water Quality and Security (2010) Infrastructure Australia</b></p> <p>recommended the formation of regional water corporations in NSW and Queensland, and its subsequent report <b>Australian Infrastructure Plan: Priorities and reforms for our nation's future (2016)</b> also recommended that water utilities be audited for performance to inform pathways for reform, including transferring operations into regional water utilities.</p>

**Attachment 2** is an opportunity and risk analysis on service quality and continuity included with MCW's initial submission to the Merger Proposal Review undertaken by Dr Tiley. The analysis effectively compares the benefits of organisational specialisation from a stand-alone water and sewerage utility to merging the function into a general purpose council.

The analysis in the initial submission concluded that:

- *A water and sewerage utility;*
  - *Achieves effectiveness through specialisation with better quality service and prudent investment in water infrastructure*
  - *Has a greater appetite for investing in resilience assets that will only be used in the event of managing an incident or emergency eg. critical spares and generators*
- *A general purpose Council, with competing priorities would have a stronger focus on utilisation efficiencies, and therefore be less likely to invest in resilience assets.*
- *A diverse Local Government organisation with a four (4) year election cycle invariably is motivated to pursue short/medium term objectives in priority to long term ones.*
- *Water and sewerage pricing and investment will be merged into a more diversified Local Government, impairing transparency and commercial focus identified as critical in previous reviews.*

The above analysis is subjective and does not attempt to quantify costs and benefits of specialisation or improved decision making from a skill based expertise Board which is invariably extremely difficult to do ex ante.

**Option 2 - Dissolve MidCoast County Council and merge the water and sewerage function (trading as MidCoast Water) as a business unit into MidCoast Council.**

The major arguments in support of Option 2 are

1. Quantifiable cost savings to the merged entity through shared back office services and systems
2. Efficiency through consolidation of development assessment in a single organisation
3. Further efficiencies from increased scale of plant utilisation and procurement

A preliminary review of potential staff savings from shared back office or corporate services functions (Attachment 3) has conservatively estimated savings of \$2.4 million per annum. These savings are generated through a single Board (Council) rather than multiple Boards, reduced Executive management and reduced staffing in consolidated back office or corporate services.

In addition to quantifiable staff savings there are clearly savings to be achieved through running a single enterprise information system rather than two (2) separate systems. MCC is currently pursuing the option of consolidating its enterprise information system utilising Technology One. MCW has recently installed this product and the negotiated annual licence fee, based on properties serviced, facilitates use in the event of a merger or shared services arrangement without further charge for the same properties. As MCW services the same properties as MCC, duplicate licence fees would be avoided in the event of a merger. Likewise MCW has an operational microwave based communications system connecting its facilities across the region. While this could be accessed by MCC through a shared service or licence agreement if MCW remained a separate entity, facilitating this would be easier within a merged entity and transaction costs would be avoided.

Both MCC and MCW operate substantial vehicle fleets to service the 10,000 square kilometre operating area. MCC operates its own vehicle mechanical workshops while MCW utilises local mechanic service providers across the region at standard retail rates. While further work is required to quantify the potential savings from merged fleet management it is anticipated (based on previous reports and experience) to create efficiencies and savings.

It is conservatively estimated that cumulative operational savings in excess of \$3 million per annum can be achieved following an initial transition period under Option 2. The lead time to achieve this saving would be impacted by the three (3) year employment guarantee that is applied under Local Government Reform.

**Employment Impacts**

MCC and MCW both operate under the NSW State Industrial Relations system rather than the Federal system. This would continue under either Option 1 or Option 2.

In the event that MidCoast County Council was dissolved and the water and sewerage function merged into MCC, it would be necessary to harmonise and consolidate the MCW Enterprise Agreement with those currently operating within MCC. The additional Enterprise Agreement would add further complication to the challenge MCC already faces in harmonising industrial agreements. This is particularly the case given that the MCW agreement has been developed for a specialised water and sewerage utility over an extensive period of time and includes allowances and

arrangements specifically for the water and sewerage sector. Nevertheless, principally the same industrial organisations are involved and while harmonisation may be challenging, it is ultimately achievable.

MCC has already commenced integration of its workforce and management structure since its Proclamation in May 2016. A further merger is likely to add to the change fatigue and uncertainty experienced by staff. It is important that any Proclamation implementing the decision arising from this matter places staff on equal footing and provide a pathway to harmonising industrial instruments. It is therefore envisaged that the same employment guarantee and employment preference arrangements that applied to the merger of the former three (3) constituent councils would be applied equally to MCC/MCW staff.

The quantifiable savings from Option 2 are predominantly from reduced staffing in executive management and back office functions. The timing for achieving these savings will be impaired by the three (3) year employment guarantee that has applied to Local Government mergers if MidCoast County Council is dissolved. While natural attrition and voluntary redundancies may be utilised to achieve the savings to the maximum extent possible, there will ultimately be reduced employment and staff impacts if these savings are to be realised.

## **Conclusion**

Option 1 – Local Government owned corporation, is consistent with the principles of urban water reform that commenced with the National Water Initiative/COAG Reforms in the mid 1990's. Increasing the commercial focus of the organisation and improved asset decisions through a skill based expert Board together with organisational specialisation is likely to drive asset efficiency/service quality and continuity. The retention of a separate self-governing Local Government owned corporation however will incur additional Board, Executive Management and back office costs that can be avoided if MidCoast County Council was dissolved and the water and sewerage function merged into MCC. It is conservatively estimated that the avoidable costs would exceed \$3 million per annum after an initial transitional period of three (3) years.

Whether the subjective benefits of Option 1 are sufficient to outweigh the quantifiable costs that can be avoided through Option 2 is debatable. While MCW is the only County Council providing fully integrated water cycle management in NSW, with annual revenue of \$80 million in servicing 40,000 properties it is only a small proportion of the scale of the existing NSW stand-alone water and sewerage utilities – Sydney Water and Hunter Water.

MCW is currently facing financial sustainability challenges from the high level of debt it has incurred as a result of the significant water and sewerage infrastructure capital programme it has implemented since its formation together with the ongoing operating costs of this increased infrastructure. This is providing upward pressure on water and sewerage prices in the short to medium term until population growth utilises a greater portion of existing infrastructure capacity.

Option 2 provides quantifiable cost savings that will assist to mitigate water and sewerage pricing pressures in the short and medium term.

Reducing the portion of public funds absorbed in management, back office and indirect costs together with improving financial sustainability of Local Government is a key principle underpinning State policy with Local Government reform. On balance, it is therefore recommended that Option 2 be implemented.



Attachment Schedule:

Attachment 1 – MidCoast Water achievements

Attachment 2 – Opportunity and Risk Analysis

Attachment 3 – Preliminary Quantifiable Salary Savings

## Attachment 1.

### MidCoast Water achievements

Between 1997 and 2016, MidCoast Water has had a strong track record focussing on significant improvement to water and sewerage services to its community leading to better protection of public health and the environment.

These achievements include:

- Creating an infrastructure delivery group to project manage \$315 million in new water and sewerage infrastructure over 19 years.

Key drinking water improvements include:

- 1998: Stroud Water Treatment Plant completed (2 million litres/day, \$5 million)
- 1998 to 2006: Delivery of 6 new service reservoirs and associated pipelines to improve water network performance (\$16 million)
- 2010: Bootawa Water Treatment Plant (60 million litres/day, \$85 million). The plant employs world class membrane filtration, ozone treatment and biologically activated carbon filtration, and won the inaugural NSW and 'State of Origin' water taste tests in 2013.
- 2012: Tea Gardens Water Treatment Plant (10 million litres/day, \$18 million)
- 2016: Urgent \$900,000 investment in the Gloucester Water Treatment Plant to modernise the plant and minimise water quality incidents

Key environmental performance improvements include:

- 1997: Forster STP upgraded to serve a population of 32,000 people (\$10 million), including tertiary treatment (sand filtration and UV disinfection)
  - 1997 to 2009 Provision of backlog sewerage services to the villages of Pacific Palms, Smiths Lake, Nabic, Wallamba district, Coopernook, Lansdowne, Manning Point, North Karuah and Crowdy Head (\$56 million, in partnership with the NSW government)
  - 1997 to 2010: Construction, renewal or upgrade of more than 50 sewerage pump stations using in-house engineering and construction teams
  - 2004: Old Bar STP upgraded to serve a population of 8,000 people (\$7 million)
  - 2006: Hallidays Point STP upgraded to serve a population of 25,000 people (\$21 million)
  - 2007: MidCoast Water commissioned the first stage of largest vacuum sewerage scheme in the southern hemisphere at the time, serving up to 3600 homes (\$4 million)
  - 2009: Taree-Wingham Effluent reuse project completed (\$21 million)
  - 2009: Stroud Sewerage Treatment Plant replaced (\$10 million)
  - 2012: MidCoast Water completes 4 recycled water schemes (\$21 million) in partnership with the federal government at Tuncurry, Hawks Nest, Bulahdelah and Harrington. The Tuncurry and Hawks Nest schemes employ world class membrane filtration technology for unrestricted use in public open space, and prepare MidCoast Water for purification of the reclaimed water for supplementing drinking water in future years.
- 'Smarter' infrastructure – a significant commitment to automation of 21 water treatment and sewage treatment plants – along with hiring and upskilling electricians to SCADA technicians. MidCoast Water technicians are fluent in Citect, ClearSCADA and RadTel SCADA systems.
  - A complementary strategy for non-infrastructure solutions and sustainable water management – demand management, community education, catchment management. The

## Attachment 1.

strategy, *Our Water Our Future* was managed in-house by engineers in MidCoast Water's planning team.

- Numerous regional environmental initiatives in partnership with Great Lakes Council, Greater Taree City Council and Gloucester Shire Council (since amalgamated to MidCoast Council on 12 May 2016)
- Annual allocation of \$60,000 in MidCoast Water's sponsorship fund for community events and other support.
- Since 2012 MidCoast Water has led international water operator mentoring partnerships with three Pacific Island water utilities in Samoa and Tonga.
- Operates an independent NATA accredited water laboratory with 7 staff.
- Regionalised information systems through a wireless communications backbone developed, owned and operated by MidCoast Water that now extends across the Great Lakes, Greater Taree and Gloucester local government areas.
- Strategic capacity expanded in business planning, asset management, integrated management systems (safety, environment, quality), and information technology
- Commitment of staff time to innovation projects
- MidCoast Water took on the water and sewerage responsibilities of Gloucester Shire Council in July 2011, and is committed to an infrastructure renewal and performance improvement plan amounting to \$23 million over the next 6 years in Gloucester. Key projects:
  - 2016: Gloucester Water Recycling Scheme (\$1.5 million)
  - 2019: Gloucester STP replacement (\$8 to \$12 million)
  - 2020: Gloucester Service reservoirs and associated pipelines (\$7.4 million)
  - 2025: Gloucester WTP replacement (\$5 million)

The latter two projects might be accelerated if state or federal funding assistance can be provided.

## Attachment 2.

### 3.1 SERVICE QUALITY AND CONTINUITY

Issue	Option 1: Separate local government owned water and sewerage utility	Option 2: Utility functions merged with Council
<b>Water science</b>	<b>Opportunity:</b> Strong capability in measuring and controlling water quality, treatment functions and their contribution to high quality water and sewerage services.	<b>Risk:</b> Science functions might not be considered 'core business'.
<b>Asset management</b>	<p><b>Opportunity:</b> Water and sewer focused asset management and maintenance allows for targeted planning, investment and management.</p> <p><b>Opportunity:</b> The ability to use sophisticated asset management systems tailored to water industry including condition-based management, mobility solutions, complex multi-disciplinary systems (civil, mechanical, electrical, process, critical control points).</p>	<p><b>Risk:</b> In a multi-function council, asset management and maintenance becomes one component of overall council function and often cannot be tailored to water and sewerage services but must also support other council assets, such as roads.</p> <p><b>Risk:</b> There is pressure to have water and sewerage fund pay for asset management functions of general purpose council, such as roads or bridges.</p>
<b>Specialised personnel</b>	<b>Opportunity:</b> More specialised staff and ability to retain and capture knowledge in-house. Greater ability to attract specialised staff.	<p><b>Opportunity:</b> Greater possibility for staff to move across a range of functions however the industry trend is towards accreditation of water industry professionals.</p> <p><b>Risk:</b> Forced to use general purpose staff for some areas, such as in project management, where industry-skilled staff would be more appropriate.</p>
<b>Plant and equipment</b>	<p><b>Opportunity:</b> Ability to purchase equipment specifically for water and sewer functions and maintain its use for the required functions (e.g. dedicated water and sewer CCTV equipment).</p> <p><b>Opportunity:</b> Greater control of dedicated water and sewer-specific purchasing and adherence to water and sewer-specific standards e.g. AS/NZS 4020:2005 (Testing of products for use in contact with drinking water).</p>	<p><b>Opportunity:</b> Potential efficiencies in purchasing-power for plant and equipment. Ability to share equipment across functions.</p> <p><b>Risk:</b> Lack of dedication to the water and sewer function may compromise suitability of equipment for required functions e.g. cross-contamination of water supply from shared water and sewer uses.</p> <p><b>Risk:</b> Potential for water fund to be paying greater than market rates to the general fund.</p> <p><b>Risk:</b> Investment in plant and equipment for business resilience/emergency response is reduced as plant utilisation rate is seen to be low. Equipment is then unavailable to ensure essential service provision.</p>

Issue	Option 1: Separate local government owned water and sewerage utility	Option 2: Utility functions merged with Council
<p><b>Customer focus</b></p>	<p><b>Opportunity:</b> As a dedicated water and sewer business, the utility can focus directly on its key products and services without being distracted with other council obligations, resulting in a strong compliance focus on key products and services.</p> <p><b>Opportunity:</b> Call centre with dedicated and trained customer service staff can allow customer enquiries to be resolved through efficient allocation of work. Water problems need to be properly ‘triaged’ to ensure mundane customer issues don’t overwhelm potential issues, service continuity, water quality or environmental protection. This is in place and operating regionally.</p>	<p><b>Risk:</b> As part of a multi-purpose council, water and sewer becomes one component of overall customer service. Council priorities may result in a reduced focus on essential water and sewerage products and services.</p> <p><b>Opportunity:</b> Potential for cost savings for councils by consolidating call centre with other council functions.</p> <p><b>Risk:</b> Potential loss of water and sewerage knowledge if call centre is consolidated. Customer satisfaction may reduce, due to time taken to find specialist advice.</p> <p><b>Risk:</b> Potential fragmentation of existing regional service into the existing structure of local government.</p> <p><b>Risk:</b> Potential loss of knowledge may result in longer detection and escalation times for serious water quality issues impacting public health. Failure to respond appropriately to customer complaints has been implicated in a number of water quality emergencies that have resulted in illness and loss of supply<sup>10</sup>.</p>

<sup>10</sup> Steve E. Hurdy and Elizabeth J. Hrukey, 2014, Ensuring Safe Drinking Water Supply, Learning from frontline experience with contamination

### 3.2 SUSTAINABLE RESOURCE MANAGEMENT

Issue	Option 1: Separate local government owned water and sewerage utility	Option 2: Utility functions merged with Council
<b>Environmental stewardship</b>	<b>Opportunity:</b> Good stakeholder liaison, including catchment management programs, facilitate delivery of multiple benefits such as source water quality and environmental health outcomes.	<b>Opportunity:</b> Reduction in overlapping interests in catchment management/Integrated Water Cycle Management by merging water authority (water supply issues) and council (stormwater/flooding issues).
<b>System understanding</b>	<b>Opportunity:</b> Focussed and efficient risk/quality management framework centred on water services, rather than being diluted by a generalist approach (many functions of local government do not require sophisticated and targeted risk management or quality management systems).	<b>Risk:</b> Not as well-resourced from a human resources perspective and therefore not as focused or sufficiently resourced to evaluate and manage operational risk mitigation.
<b>Water as a resource</b>	<b>Opportunity:</b> As a separate business, the focus is on the value (and costs) of water and sewage products and services (including recycled water and biosolids) which encourages efficiency of resource use and identification of markets for products and services.	<b>Risk:</b> Cross-subsidisation does not allow for proper focus on resource efficiency.

### 3.3 BUSINESS HEALTH

Issue	Option 1: Separate local government owned water and sewerage utility	Option 2: Utility functions merged with Council
<b>Risk Management</b>	<b>Opportunity:</b> Water and sewerage specific risk management framework that considers public health (water quality), work health and safety, environmental, continuity of supply, continuity of operation, reputation, finance and compliance and legal.	<b>Risk:</b> Absence of risk focus on public health (water quality) continuity of supply, continuity of operation, and water and sewerage focus for compliance and legal.
<b>Financial</b>	<p><b>Opportunity:</b> As a dedicated water and sewerage business, the focus is on borrowing for water and sewerage services' capital investment.</p> <p><b>Opportunity:</b> With a targeted focus on water and sewer risk management, insurance premiums could be lower.</p> <p><b>Opportunity:</b> Capacity to raise finance in own name.</p> <p><b>Opportunity:</b> Clear transparency in pricing.</p>	<p><b>Risk:</b> Crowding out of water and sewerage investment with competing short term priorities.</p> <p><b>Risk:</b> Loss of transparency in water and sewerage pricing</p> <p><b>Risk:</b> From a lending perspective, water and sewerage investment may compete with other council investment priorities. The investment approach for water and sewerage services is substantially different to that of roads and bridges with a different risk appetite for leverage. The regulatory environment for water and sewerage services requires high service levels and low risk, with requirement for intensive capital investment.</p> <p><b>Opportunity/Risk:</b> Greater asset pool may allow increase leveraging for borrowing, however some assets may actually have significant liabilities attached.</p> <p><b>Risk:</b> With a broader focus on the risk management of many functions, insurance premiums could be higher.</p>
<b>Payment models</b>	<b>Opportunity:</b> 'User pays' model is embedded in business planning.	<p><b>Risk:</b> 'User pays' model competes with general purpose fund model of 'tax and spend'.</p> <p><b>Risk:</b> Cross subsidisation of diversified local government functions.</p>
<b>Fiscal operation</b>	<b>Opportunity:</b> Being able to be run as a dedicated water and sewerage service business with a debt to equity ratio above 20% (consistent with the Victorian regional water corporations) provides for improved intergenerational equity.	<p><b>Risk:</b> Infrastructure investment delay due to conservative borrowing attitudes, results in impaired intergenerational equity.</p> <p><b>Risk:</b> Impact upon capacity to raise finance</p>

Issue	Option 1: Separate local government owned water and sewerage utility	Option 2: Utility functions merged with Council
<b>Compliance</b>	<p><b>Opportunity:</b> As a dedicated water and sewage business, there would be a greater focus and understanding of key operating context and compliance requirements.</p> <p><b>Opportunity:</b> A dedicated water and sewer business would be easier to regulate due to its specialisation and focus, than a general purpose council.</p>	<p><b>Risk:</b> Greater possibility of loss of compliance focus for water and sewer functions amidst competing compliance requirements for other functions.</p> <p><b>Risk:</b> Potential for compliance fatigue with a multitude of requirements existing across a multi-purpose council.</p>
<b>Business continuity management</b>	<p><b>Opportunity:</b> Business Continuity Plan (BCP) focusses on key functions as a water and sewerage service business provider.</p>	<p><b>Risk:</b> It is uncommon for water and sewerage services to be considered within a multi-purpose council BCP.</p>
<b>Cross-subsidisation</b>	<p><b>Opportunity:</b> Dedicated business means any cross-subsidisation (e.g. supply of recycled water without full cost recovery) is fully transparent.</p>	<p><b>Risk:</b> Significant cross-subsidisation from the water fund to the general fund can occur through multiple mechanisms with potential for reduced transparency.</p>
<b>System integration</b>	<p><b>Opportunity:</b> As a dedicated water and sewerage business, business processes and information systems can be selected to deliver specific water and sewerage requirements.</p>	<p><b>Risk:</b> Merged entity loses information focus and functionality as systems are combined, both day-to-day and in incident and emergency management situations.</p>
<b>Support services</b>	<p><b>Opportunity:</b> Dedicated specialist support services.</p>	<p><b>Opportunity:</b> Within a larger organisation there is more scope for specialists to be shared across multiple areas (e.g. compliance officer, work health and safety officer).</p>



Area	Option 1: Separate local government owned water and sewerage utility	Option 2: Utility functions merged with Council
<b>Governance</b>	<p><b>Opportunity:</b> Responsibilities clearly defined for managing and effectively resolving public health emergencies such as a drinking water contamination incident.</p> <p><b>Opportunity:</b> Potential to further improve governance expertise and long term integrated water management focus with various stand-alone entity options.</p>	<p><b>Risk:</b> Responsibility for managing public health emergencies is not defined at the executive manager level resulting in delays to effective resolution.</p> <p><b>Risk:</b> Dilution of governance with competing priorities in a diversified organisation.</p>
<b>Strategic vision</b>	<p><b>Opportunity:</b> Strategy can be implemented as envisaged.</p>	<p><b>Risk:</b> Merged entity likely to have a divergence in strategic objectives. Losses likely to occur in costs sunk in strategies already implemented, that may not be part of the merged entity's plan.</p>

4.7 READINESS FOR CHANGE

Area	Option 1: Separate local government owned water and sewerage utility	Option 2: Utility functions merged with Council
<b>Technology</b>	<p><b>Opportunity:</b> As a dedicated water and sewerage business, the utility can maintain a focus on emerging technologies and methods resulting in a nimble approach and facilitated capitalisation of identified technologies.</p> <p><b>Opportunity:</b> Movement away from traditional tools and techniques towards trenchless technologies and robotics in water and sewerage asset operations and maintenance.</p>	<p><b>Risk:</b> Broader objectives and systems may hinder identification and implementation of technological advancements.</p>
<b>Skills</b>	<p><b>Opportunity:</b> Greater understanding of industry change and innovation issues.</p>	<p><b>Risk:</b> Less specialised staff and more internal stakeholders means a reduced ability to understand and respond to industry changes.</p>
<b>System</b>	<p><b>Opportunity:</b> Dedicated business systems and focus.</p>	<p><b>Risk:</b> Broader council systems, less easily adapted to deliver specific water and sewerage changes.</p>
<b>Operating focus</b>	<p><b>Opportunity:</b> Increased focus, experience and expertise in the board allows for greater strategic direction for the business.</p>	<p><b>Risk:</b> Water and sewer functions are not clearly oversighted at the councillor level resulting in less targeted direction for those functions.</p>
<b>Stakeholders</b>	<p><b>Opportunity:</b> As a dedicated water and sewer business, active relationships can be developed with regulators allowing the business to stay abreast of, evaluate and implement key changes.</p>	<p><b>Risk:</b> Merged business may not have the strong water and sewer focus to support readiness for change.</p>



Attachment 3.

**Option 2 – Preliminary Quantifiable Salary Savings**

Councillor fees and meetings	110,000
Reduction in executive staff	700,000
Communications/Education	80,000
HR/WHS	260,000
Corporate:	
Customer service and admin	290,000
Finance	420,000
Strategic and Regulatory	180,000
Information technology	<u>360,000</u>
	<b>\$2,400,000</b>