

**Water Sewerage and Drainage Review**  
**Tasmanian Roles and Functions Committee**

**Final report**

**A report by**

**London Economics**

**for the**

**Tasmanian Roles and Functions Committee**

**September 1995**

## Introduction and background

The Tasmanian Roles and Functions Review Committee commissioned London Economics to conduct a review of the Tasmanian water, sewerage and drainage (WSD) industry. The aim of the review was to identify whether WSD services are being provided efficiently, to identify the magnitude of improvements that could be achieved, and to recommend appropriate structural, institutional and regulatory changes that would deliver these improvements.

We divided the project into four distinct stages. The results of each stage were presented to the project Steering Committee in the following working papers:

- Working Paper 1 - a summary of the current structure of the industry, a review of existing WSD studies, the results of consultations with industry stakeholders, and a set of suggested reform objectives;
- Working Paper 2 - a detailed assessment of the performance of the industry based on a comparison of Tasmanian providers with a large group of international WSD providers;
- Working Paper 3 - a full set of options for change addressed in terms of structural options, organisational options, governance options and regulatory options. The paper also listed options for catchment management, irrigation, pricing and accounting; and
- Working Paper 4 - an analysis of the options presented in Working Paper 3 leading to our recommendations for change.

This Final Report summarises our main findings and recommendations, identifies the key evidence we have used to support these conclusions, and identifies some further issues which need to be considered.

## Summary of findings

### Performance

Our analysis clearly identified considerable scope for improvement for the industry as a whole. We estimated that the total gains from appropriate reform would amount to between \$7m and \$18m per annum, yielding a net present value of savings of between \$60m and \$165m.<sup>1</sup> This equates to annual reductions in customer bills of between \$42 and \$107 per year. Two thirds of these savings arise from improvements in provision of water. The remainder derive from savings in sewerage and sewage treatment.

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Using a 10% discount rate

These figures make no allowance for Federal payments for meeting the COAG agreed competition policy reform timetable. In respect of the WSD sector, we estimate these would contribute \$12m. Our recommendations are consistent with COAG principles.

### Key recommendations

Table 1 summarises our recommendations. Our analysis, which comprises both quantitative and qualitative components, shows that the structure most likely to deliver these gains is based on three regional vertically integrated service providers.

**Table 1. Summary of WSD recommendations**

Option	Key advantages
<b>Structural change</b>	
Integration 2. Three vertically integrated WSD businesses providing bulk water, reticulation and sewage treatment	Maintains economies of scope between sewerage reticulation and treatment. Provides small number of larger organisations capable of attracting the best management. Consistent with existing regional coordination
<b>Institutional change</b>	
Airports model. Small central management group that sub-contracts all key operational activities.	Provides the mechanism for ensuring skills from the best Councils are used effectively across regions. Subjects providers to benefits of competition in sub-contracting markets.
Corporatisation. State or Local Council owned profit maximising organisation operating along lines of sound commercial practice. Direct access to capital markets.	Ensures that best practices of commercial sector are bought into the industry. Ensures Directors are accountable for performance and for meeting standards.
<b>Governance arrangements</b>	
Expert boards selected by Local Councils according to agreed selection principles, along the lines of the process for selection for the R&D corporations.	Relevant engineering, financial and commercial boards are needed to select managers, monitor and direct the performance of the organisation.
<b>Economic regulation</b>	
Statement of Corporate Intent approved by Local Councils. Prices Commission. Tasmanian regulator determining price regulation, information publication requirements.	Primary regulatory instrument is the Statement of Corporate Intent which establishes prices, standards and future plans. Economic regulation under the Price Commission needed to monitor pricing.

The service providers would operate under a corporatised model with boards selected solely on the basis of relevant commercial, financial and water industry experience. The Board would be responsible for hiring and firing the Chief Executive Office of water company. The Boards should be selected by Local Councils.

**Table 2. Summary of catchment management and irrigation recommendations**

Option	Key advantages
<b>Drainage</b>	
Local Councils keep all drainage responsibilities	Drainage costs are directly related to Local Council activities. Where drainage uses sewerage reticulation, sewerage service providers may levy charges <i>only</i> in so far as combined sewerage/drainage raises costs
<b>Catchment management and regulation</b>	
Local Councils responsible for catchment management, to meet regulatory requirements. Specific framework to address boundary issues, requirements for publication of catchment management plans.	Maintains key responsibility for <i>management</i> with Councils, whose land planning and other land use responsibilities are most likely to influence catchment performance. Coordination and assistance available through existing organisations
Independent Tasmanian Catchment Regulator (TCR) under DELM operating under own legislation, but with provision for policy direction, and with powers of direction over land and water use.	Single organisation with mandate and incentives to ensure that appropriate standards are followed. Close to current arrangements.
<b>Irrigation</b>	
Transfer of all assets and management of irrigation schemes to body corporate representing users; dams to remain under State Government ownership.	Users cannot pay the full cost of irrigation dams, so retained Government ownership avoids crystallisation of losses. Users have an interest in good management of scheme. Body corporate can develop systems for encouraging efficient allocation of water

### Nature of the inefficiencies

Most of the inefficiency we observe is either directly under the control of industry managers, or is the result of operating in difficult operating circumstances - for example, providing WSD services to remote populations, or in difficult terrain. The former - inefficiency due to management decisions - is costing at least \$7m per annum or \$60m in total. That is, our lowest estimate of gains can be achieved through better management, and is not constrained by the difficult operating conditions seen in Tasmania.

We are unable to say precisely how much of the remaining \$11m of extra cost can be reduced through better management. Some of these extra costs are, without doubt, the result of the operating problems outside management control, but some may not be. None the less, the clearly realisable cost savings are substantial.

It should also be noted that these cost savings represent a mix of both labour/operating cost savings and capital cost savings. The latter can only be expected over the long term. However, most of the cost savings can be achieved over a significantly shorter period of perhaps three to five years.

We recommend a number of mechanisms to preserve the best features of the current mode of service delivery, namely local accountability, relatively light handed regulation and the clear expertise of the more efficient Local Councils, as follows:

- it is essential that better information on performance in the sector is collected and disseminated so that service providers can judge their performance. This could be managed under the auspices of ARMCANZ and the WSA;
- Local Councils should be responsible for approving a Statement of Corporate Intent (SCI) every two years. The SCI will provide a five year business plan, and clearly identify prices, service delivery standards to be met in the relevant period. In addition, the Prices Commission should adopt a broad monitoring role; and
- the water companies should be required to put out to tender their core activities, and that the Councils be encouraged to tender. This will ensure that the skills of the best performing Councils are retained in the sector.

Provided that these recommendations are followed, we do not consider that different ownership options will result in different cost savings. The option which is likely to minimise asset transfer difficulties is Local Council ownership in broad relation to their contributed assets.

Finally, we recommend that these companies develop pricing based on long run marginal costs, they adopt a two part optimal investment rule, they earn an appropriate return on capital, and they develop account principles based on infrastructure renewal principles.

### Other recommendations

Table 2 summarises our recommendations for drainage, catchment management, catchment regulation and irrigation. The key points are:

- drainage is fundamentally related to the land use and land planning activities of Local Councils, and is largely separate from potable water and sewage provision. Local Councils should continue to provide these services;
- uniform catchment regulation is best ensured though a single State regulator but again, catchment management is closely related to Council controlled land use and land planning. Thus *management* should be the responsibility of Councils supported by a mechanism for resolving boundary problems;
- irrigation changes are aimed at encouraging better allocation of resources by developing structures in which users can trade water. However, we do not consider that dams should be owned by the users. Users cannot pay the construction costs of the dams, and asset transfers would crystallise losses.

## **Economies of scale and scope**

We found no evidence that Tasmanian WSD providers fail to exploit economies of scale in water provision or in sewerage reticulation. Hence, no cost savings will accrue in these activities simply through amalgamation of the existing service providers.

We did observe significant economies of scale in sewage treatment. That is, the unit costs of sewage treatment would fall if treatment took place in fewer larger sewage treatment plant. In the rural areas, there is very little scope for amalgamating treatment plant because the costs of installing mains to support larger plant would outweigh any benefits of lower treatment costs. However, in urban areas this is not necessarily the case. Although Tasmanian population growth is static, tougher environmental standards are forcing urban Local Councils to invest further in sewage treatment. Sewage treatment efficiency would improve if adjacent Local Councils co-ordinated their sewage treatment investment.

There is also evidence of economies of scope between sewerage reticulation and sewage treatment. That is, the unit costs of providing sewerage reticulation and sewage treatment are lower when produced by a single service provider than by two service providers, each providing one service. This suggests that separating sewage treatment from sewerage reticulation would be inefficient.

## **Causes of poor performance**

Our recommendations are based on a number of problems we observed, whilst recognising the fundamental constraints on change imposed by a capital intensive, long lived asset activity, such as water and sewerage. We have identified the following:

- a paucity of data on industry performance by which the sector can judge its own efficiency and its own working practices;
- an uneven spread of management and technical skills across the sector, with the result that a few Local Councils perform very well, but many do not;
- a general lack of accountability in terms of compliance with appropriate standards, accepted practices in accounting, planning, investment appraisal and other important activities;
- a failure to co-ordinate in aspects of service delivery where co-ordination is beneficial, for example in sewage treatment and in respect of sharing staff and expertise across Council boundaries;
- some conflicts of interest between service provision and regulatory functions, most notable in the service provision role of RWSC; and
- a reluctance for regulatory authorities to enforce standards and the lack of a coherent regulatory framework for examining pricing and performance.

## **Assessing the costs of change**

Throughout the study we have been aware that it is important to compare the benefits of change with the costs. Unfortunately, we have been unable to quantify costs sufficiently to do this, for the following reasons:

- the most significant costs of WSD reform relate to their impact on other services delivered by Councils. Resources used in WSD service delivery are also used in other services. However, the other activities undertaken by Councils are also under review. Thus, it is only possible to assess these costs by examining the panoply of change; and
- some changes are likely to be needed simply to meet COAG undertakings. It is not possible to easily separate out changes solely directed at meeting COAG targets, and those recommended in this report.

Thus, we would recommend that the Roles and Functions Review Committee specifically address the question of the impact *all* proposed reforms on service provision by Local Councils. This should take place within a clearly established framework for allocation of responsibilities between State Government, Local Councils and the private sector.

## **Key implementation issues**

There are two conflicting considerations which impact on the implementation of the proposed reforms:

- a step-by-step implementation of recommendations implies delays and the possible dilution of the eventual outcome and with it, the objectives they were intended to achieve; but also,
- the constraints faced in implementing the overall structure need to be acknowledged.

However, these recommendations could and should be implemented within a eighteen months of their acceptance. To meet this ambitious timetable, it is essential to minimise initial disruption costs. The major implementation difficulties are two fold:

- Local Councils preparing themselves to support sub-contracting by the corporatised water companies; and
- asset transfer issues.

The former are best managed through initial contracts which maintain the existing Local Council as suppliers of labour, operation and maintenance, and capital works in progress. These contracts should run for a period of between one and two years, at the end of which, the water companies would be free to seek competitive tenders from any source.



GOVERNMENT  
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COMMISSION

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Mr Robert Rockefeller  
Nekon Pty Ltd  
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PARADISE WATERS QLD 4217

Dear Mr ~~Rockefeller~~ *Robert*

**COMPLIANCE BY COUNCILS WITH THE COMMISSION'S URBAN WATER  
PRICING GUIDELINES**

Thank you for your letters of 7 March 2003 and 18 March 2003 in relation to the compliance by councils with the Urban Water Pricing Guidelines and the 2003 Urban Water Pricing Audit.

In relation to your concerns at the accuracy of the information provided by councils for the audit, I can assure you that the information is crosschecked with the audited financial statements for each council. Where differences in the figures are identified these issues are then raised and resolved with councils. I agree that it is important that the information used in the audit is accurate and, accordingly, any information provided by councils is verified during the audit process.

You may also be interested to know that the Commission intends to undertake some high level benchmarking of water pricing. However, care needs to be exercised in such benchmarking, for example a simple measure of revenue per person may deliver anomalous results if there are significant difference in the nature of water users between councils, for example the residential/rural/business/industry mix. Also, scale differences introduce further complications to the benchmarking process as do differences in the type of system, for example Burnie City Council has a system from source to tap whereas Hobart City Council's system is only from local reservoir to tap.

I note that you have raised the issue of 'ringfencing' water business activities within councils. When considering this issue it should be noted that it is not common practice in the private sector to 'ringfence' each business unit or cost or profit centre and it is not appropriate to do so where expenditures are lumpy. Councils, like any other business, will seek to use internal sources to finance projects to maximise overall long term benefits. 'Ringfencing' is required for transparency, but it does not follow that a



'ringfenced' business needs to be quarantined, with funds retained in and dedicated to that activity.

Finally, the Commission will be undertaking a high level review of the application of two-part tariffs in those councils that have implemented such a structure. If you would like a further explanation of the Commission's approach to this issue, I refer you to Chapter 8, Water Pricing Principles, in the *Investigation into Bulk Water Pricing Policies*, July 2001. This Report is available at <http://www.gpoc.tas.gov.au/investig.htm>.

I trust that the above information satisfies your concerns, and thank you again for your analysis and observations.

Yours sincerely



Andrew Reeves  
**COMMISSIONER**

28.3.03



**Nekon Pty. Ltd.**

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7<sup>th</sup> March 2003

Mr A. Reeves  
Commissioner  
Government Prices Oversight Commission  
GPO Box 770  
Hobart  
Tas 7001

**RE: Compliance by Councils with the Commission's Urban Water Pricing Guidelines**

Dear Andrew,

As you know we believe reform of Tasmania's water industry is necessary to create an economically viable and ecologically sustainable industry for the future of Tasmania. Part of this reform is to ensure that the pricing of water and waste water services is done correctly to discourage wasteful use of resources and encourage appropriate investment in water infrastructure.

The GPOC Urban Water and Wastewater Audit report for 2001 (Audit Report) indicated a high level of compliance by Tasmanian Councils in both water and waste water pricing. However the report does not provide any information on the accuracy of the information provided by Councils to arrive at the conclusions regarding the level of compliance. As previously stated we are very concerned at the reliability of this information.

We draw your attention to Attachment 1 which shows significant variances between the various councils particularly when compared to an average over the State utilizing the information which you prepared in the audit. Table 1a and table 2a are extracts of information from tables 2 and 3 of the audit report. Tables 1c and 2b in attachment 1 show the revenues and costs per person in each council so as to be able to make some broad comparisons between councils on a relative basis. A summary of the average, high and low is provided below.

	Average	council	high	low	council
	000'S		000'S	000'S	
WATER REVENUE /PERSON	144	Glenorchy	234	63	Kentish
OP AND MAINTAINANCE /PERSON	99	Hobart	140	31	Flinders
ADMIN & OH COSTS/PERSON	11	King Island	50	2	Brighton
ASSETS PER PERSON	989	Burnie	2,726	217	Kentish
ML WATER PRODUCED/PER	0.18	Glenorchy	0.28	0.06	Kenish
	000'S		000'S	000'S	
WASTE WATER REVENUE/PERSON	118	George Town	279	33	Kentish
OP AND MAINTAINANCE/PERSON	47	George Town	210	6	King Island
ADMIN & OH COSTS/PERSON	11	King Island	50	0.2	Glenorchy
ASSETS PER PERSON	1,206	Devonport	2,398	255	Kentish

Based on the information provided it is apparent that the operations and allocation of costs vary tremendously between Councils and consequently the audit reports accuracy is questionable. Looking at the very significant variances between the average, high and low results it does raise the questions as to the accuracy of information being provided by Councils. It is difficult to believe that the cost of providing water and waste water services can vary so substantially across all of the Councils , the amount of capital employed or revenue.

Are apples being compared with apples or are numbers only being manipulated? If we take Hobart City Council for example the revenue items in their annual report vary significantly to what is in the audit report. Another area of concern is the wide discrepancy in asset values per person. This is an area where local councils can significantly manipulate revenue/profit and the results. How are these values being reviewed? Who is the Gate Keeper as this impacts the results the most?

Another is what is actually happening to the revenue/profit from these businesses? Are these businesses being "ring fenced". This issue is critical. As the reason for proper pricing of water and wastewater is to ensure sufficient capital for reinvestment in the infrastructure. It is not for the revenue/profits to be spent in other areas of local council business. This is without question the most

serious issue. Long term protection of the investment in infrastructure. Do we have a sustainable industry or is it being treated as a cash cow by local government? This is what the urban pricing guidelines are effectively about.

Another very serious issue in our analysis is local councils do not seem to get any economies of scale in operation. This really does require further analysis. Prima facie this would indicate the manipulation of asset values and operating costs.

Finally as we all know 17 out of 18 councils agreed to 2 part tariff pricing, have implemented 2 part tariff pricing. It is obvious from our analysis of rating around Tasmania that they are manipulating the cost for water. Many councils still charge a significant component for water services in the general rate or have very high fixed connection charges and very low actual charges for water usage. Effectively 2 part tariff pricing has been defeated by stealth. What type of system do we have in Tasmania? No regulation, no real or effective review of water and wastewater pricing or investment in infrastructure. The industry needs substantial regulation. It is our opinion your report to the Government should illustrate these issues. Please see the latest rates schedule for Devonport attached which demonstrates our point.

GPOC is our only hope. In the forthcoming assessment please go behind the numbers and do further analysis as it is our opinion that the whole system is being rorted by local councils even those which have 2 part tariff pricing.

If we can be of any assistance please do not hesitate to contact me.

Yours truly,

A handwritten signature in black ink, appearing to be 'RR', followed by a long horizontal line extending to the right.

Robert Rockefeller

1860		1870	
234	63		
140	31		
50	2		
2,728	217		
0.25	0.06		

Height	Low
279	53
216	6
50	6.20
2,396	255

# DEVENPORT CITY COUNCIL

2002/2003

Description	Rate in \$	Minimum	Min.AAV
General Rate	10.3040		
General Rate - Primary Production only	7.9100		
Fire Rate - Urban	1.2485	27.00	2163
Fire Rate - Other	0.4030	27.00	6700
Fire Rate - Forth/Leith	0.4695	27.00	5751
Water Service Rate	2.4500	170.00	6939
Sewage Removal Rate	4.7720	125.00	2619
Waste Management Rate	0.7555		
Stormwater Removal Rate	1.8150	50.00	2755
Promotions Separate Rate	1.0000	CBD only	

22.3450

## Service Rates :

<u>Water</u>					
Water is the only usage charge All properties connected or able to connect to Council water are charged a minimum of \$170.00 plus \$0.40 cents per kilolitre for treated water.	<table><tr><th><u>Treated</u></th><th><u>Untreated</u></th></tr><tr><td>\$ 0.40</td><td>\$ 0.32</td></tr></table>	<u>Treated</u>	<u>Untreated</u>	\$ 0.40	\$ 0.32
	<u>Treated</u>	<u>Untreated</u>			
\$ 0.40	\$ 0.32				
NEED TO FIND OUT MAXIMUM USAGE BEFORE VOLUME CHARGES APPLY					

Sewage	Rate in the \$ x AAV (minimum applies)
Stormwater Rate	Rate in the \$ x AAV (minimum applies)
Waste Management Rate	Rate in the \$ x AAV



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30<sup>th</sup> December 2002

**Mr V B Armstrong**

General Manager  
Hobart City Council  
GPO BOX 503E  
Hobart Tasmania 7001

Dear Mr Armstrong

**Re Water Reform**

We have recently reread the Local Government Board Review together with your letter dated the 10<sup>th</sup> September 2002 (copy attached) as well as the National Competition Council("NCC") 2002 Assessment of Governments and in particular Volume 2 Chapter 7("the Assessment") on the aforesaid mentioned matter and it would seem that the HCC has made substantial commitments in recent times to implement water reform. It is now important to determine what is actually happening and the timeframe to implement these commitments.

In the NCC Assessment page 7.13 (copy attached) there seems to be a number of commitments which were made by the Hobart City Council("HCC"). Could you advise if the HCC made these commitments to the NCC? If not, who made the commitments on behalf of the HCC and is it the intention of the HCC to meet these commitments? Could we obtain a copy of the correspondence between the various regulatory and Government Departments regarding the Assessment? Did the HCC Aldermen actually agree to these commitments? If not who did?

In relation to these specific commitments and those previously made on Water Reform could the HCC advise us of the following

1. Does the HCC have any idea when their will be installation of meters for all non residential customers? What is the time table for installation?
2. When is it estimated that the application of a two part tariff system of charging will commence?
3. When will units responsible for the management of water used by HCC properties be charged in a transparent manner?

4. What cross subsidies has the HCC identified and how do you hope to eliminate them or make them transparent?

We believe given the commitments to the NCC, that the HCC must have already made, or someone has made on behalf of the HCC the appropriate financial allocation to meet these commitments? Have the financial commitments been made by the Aldermen to address these matters? We have not been able to find them in the Operating Plan 2002/03 but perhaps we are reading the wrong document? Please advise us what is the situation? Has the Aldermen actually agreed to the expenditure? If not how could the commitments be made? How much does the HCC propose to spend? What analysis has been done and could we obtain a copy?

Finally please advise who is on the "water sub committee" mentioned in your 10<sup>th</sup> September 2002 letter? How many times have they met? Could we have a copy of the staff reports and the minutes relating to these meetings? What and who is updating the 1999 independent assessment of universal metering for Hobart and what reports are they attempting to update? Is it possible to meet with the company or person doing the analysis so we can advise them why the report was flawed and how any new assessment can be improved? What is their brief and how much is the consulting brief? Could we please have a copy?

Thanking you in anticipation for your reply.

Yours truly



Robert Rockefeller





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10 September 2002

Mr. R. Rockefeller,  
 Nekon Pty. Ltd.,  
 Atlantis West, Suite 119,  
 2 Admiralty Drive,  
 PARADISE WATERS QLD 4217

Dear Mr. Rockefeller

### WATER REFORM PACKAGE

I refer to your letter of 7<sup>th</sup> September, 2002 and have noted your comments therein, together with the attachment.

It is correct that the staff had intended to further the issue with the Council during August. In that regard the Council decided to form a 'water sub committee' to review the situation with the Water Reform Package and to this end the group has met on a number of occasions. At its last meeting it was decided to seek an update of material used in the 1999 independent assessment of universal water metering for Hobart, which as you know recommended against wholesale metering. Action is in hand to obtain that updated advice.

The matter will be considered by the Council in due course, following receipt of the information sought.

Yours sincerely,

(V.B. Armstrong),  
 GENERAL MANAGER

resulting in customer concerns such as those expressed by Mr Rockefeller. Transparency was discussed in the previous section and is also discussed in the progress reports on community service obligations and cross-subsidies (see below). These will be significant issues in the 2003 NCP assessment.

Hobart City Council has released a water reform package (Hobart City Council, 2001) which is directly related to CoAG water reform commitments, and appears to address some of the issues raised in the submission by Mr Rockefeller. In relation to consumption based pricing, Hobart City Council have committed to undertake the following measures:

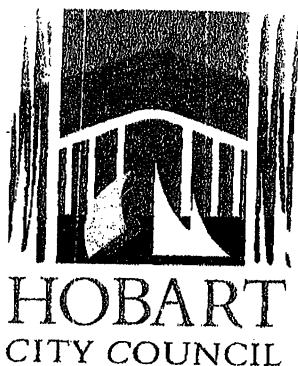
- Installation of meters for all non-residential customers;
- Application of a two-part tariff system of charging when non-residential metering is complete; and
- To attribute costs internally. Units responsible for the manage water use by Hobart City Council properties will be charged for the a transparent manner.

Hobart City Council has found that there are significant issues re cross-subsidies under their current practices. The endorsed reform package, however, aims to either eliminate these cross-subsidies, where appropriate, or to make them transparent.

In relation to Mr Rockefeller's claim that rates charged by Clarence City Council are meter dependent, Tasmania has advised that water rates are charged in accordance with the costs of each scheme operated by the Clarence City Council.

The application of trade waste charges appears to be *ad hoc*. There is a system of managing waste, but no consistent approach to pricing. The Council strongly urges Tasmania to adopt a trade waste charge that captures those customers who pay less than the incremental cost of discharges into local government sewerage infrastructure. The absence of such a charging regime — namely one that reflects the quantity and/or toxicity of the waste — provides scope for nontransparent cross-subsidies and has the potential to undermine the CoAG-endorsed principle of consumption-based pricing.

In the 2003 NCP assessment, the Council will focus on the trade waste charging arrangements in those local government areas where the largest trade waste discharges are located. These include Devonport, Hobart, Launceston, Circular Head, Central Coast, Glenorchy and Burnie.



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21 January 2003

Mr Robert Rockefeller  
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Dear Mr Rockefeller

## **WATER REFORM PACKAGE**

I refer to your letter of the 30 December, 2002 regarding matters in conjunction with water reform.

You have raised the issue of a number of reported Hobart City Council commitments that are included on page 7.13 in Chapter 7: Tasmania of the 2002 NCP Assessment Report.

I advise that the Hobart City Council has not committed to undertake the following measures as reported in this document:-

- Installation of meters for all non-residential customers;
- Application of a two-part tariff system of charging when non-residential metering is complete; and
- To attribute costs internally. Units responsible for the management of water use by Hobart City Council properties will be charged for that use in a transparent manner.

These are elements of the Water Reform Package which was endorsed in principle by the Council on the 13 June, 2001.

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The attention of the Local Government Office has been drawn to this anomalous reporting and the issue will also be taken up directly with the National Competition Council.

With regard to the "Water Sub-Committee", your attention is drawn to the General Manager's letter to you of the 3 June, 2002 wherein you were advised as follows:-

*"Further at its meeting on the 27 May, 2002 the Council appointed a sub-committee comprising the Chairman Finance and Corporate Services Committee, Chairman City Services Committee and myself to examine the options available for the provision of water within the City".*

As advised in the General Manager's letter to you of the 10 September, 2002 the group has met on a number of occasions.

KPMG has been retained by the Council to provide advice in this examination and to re-run the economic model that was used in the State Government's 1999 *"Investigation into the Cost-Effectiveness of Local Councils Implementing Two-Part Pricing for Urban Water Services"*. The model is being reviewed and updated using current data and will then be run for a number of different scenarios.

Following receipt of the consultant's report, the Water Sub-Committee will further consider the matter.

Yours faithfully



(R G (S) Viney)

**ACTING GENERAL MANAGER**