



**Central Highlands Regional Council  
Significant Business Activity  
*Water Supply and Sewerage*  
Public Benefit Assessment of the Application  
of Competition Reforms**

**Stakeholder Information Paper**

**May 2012**

**Public Benefit Assessment Submissions  
(closing date 25 June 2012):**

Public Benefit Assessment  
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# Invitation for Public Submissions

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**Reform of Financially Significant Business Activities**  
**COMMUNITY CONSULTATION INVITATION**  
**PUBLIC BENEFIT ASSESSMENT**

Central Highlands Regional Council is responsible for undertaking water and sewerage services and quarrying activities across the Central Highlands region. These Council business activities have now grown to a size where Council must now undertake a Public Benefit Assessment (PBA) to determine the most appropriate structure to apply to each business under National Competition Policy reforms (and State Government legislation).

The objective of the PBA will be to decide which of the following structural reforms to each business would produce the greatest net benefit to the community:

1. Implementation of Full Cost Pricing; and
2. Implementation of a Council Commercialised Business Unit

A Stakeholder Information Paper detailing the issues associated with each reform option for each business is available and can be obtained from Council's website [www.centralhighlands.qld.gov.au](http://www.centralhighlands.qld.gov.au) or by contacting Michael Shave on 0407 028 109 or via email at [michael.shave@aecgrouppltd.com](mailto:michael.shave@aecgrouppltd.com).

Council is interested in obtaining submissions from all interested parties on the potential economic, social and environmental implications of either reform option on each business by 25 June 2012. You may address your written comments to:

Public Benefit Assessment  
Attention: Michael Shave  
AEC Group Limited  
PO Box 1679  
Buderim QLD 4556

## Background to the Study

### Need for Public Benefit Assessments of Financially Significant Business Activities

Central Highlands Regional Council is responsible for providing water supply and sewerage services to residents and businesses in the Central Highlands region. How these regional and water supply and sewerage services are provided has been impacted by the recent Queensland local government reforms, which saw the amalgamation of the Bauhinia Shire Council, Emerald Shire Council, Peak Downs Shire Council and Duaringa Shire Council (and the consolidation of the respective water and sewerage activities into a regional Council business activity).

Council is now required by legislation to undertake a Public Benefit Assessment (PBA) of its financially significant water supply and sewerage business activity (identified as a 'Type 2' significant business activity under relevant local government legislation and associated provisions) to determine the most appropriate business structure under National Competition Policy (NCP) reforms.

The PBA is being conducted independently by a consultant.

### Background to National Competition Policy

NCP was adopted by the Council of Australian Governments (Commonwealth, States and Territories) in 1995 to improve the competitiveness of Australian industry. In Queensland, the State Government amended the *Local Government Act* to include provisions for facilitating the implementation of NCP to 'business activities' operated by Queensland local governments (such as water supply, sewerage, and waste management activities). NCP principles advocate the delivery of local government services based on commercial principles and methods designed to achieve better services and value for money for communities.

NCP is designed to make local government business activities more accountable for financing, pricing and other decisions, as well as to make the true costs and performance levels of these activities more transparent, in the hope of facilitating better decisions by chief executive officers, managers and Councils. Particular emphasis of the reforms is placed on 'significant business activities' as measured in terms of annual expenditure.

Essentially, the reforms are designed to ensure that, where appropriate, local government business activities set prices on the same basis as the private sector by making adjustments for the advantages and disadvantages of public ownership.

Potential Business Advantages	Potential Business Disadvantages
<ul style="list-style-type: none"> <li>• Exemption from the payment of taxes</li> <li>• No requirement to pay dividends to their owners</li> <li>• Access to cheaper sources of loan funds</li> <li>• Exemption from complying with certain regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Higher public superannuation contributions</li> <li>• Cost of greater accountability given reporting and regulatory arrangements</li> <li>• Community service obligations imposed by government</li> <li>• Lower degree of managerial autonomy</li> <li>• Cost of compliance with Freedom of Information Act and Judicial Review requirements</li> <li>• Difficulty in accessing taxation benefits of investment allowances and deductions</li> </ul>

It must be emphasised that NCP makes no presumption that public sector business activities are inefficient, with the aim of the reforms instead being to encourage productivity improvement and best practice in the operations of the local government businesses as well as provide for a level playing field between the public and private sectors in service provision.

## Reform Options Considered in the Public Benefit Assessment

The objective of the PBA will be to determine whether or not the benefits from implementing the following business structures would outweigh the costs, and which business structure would produce the greatest net benefit for the community.

Reform Option	Implications
Full Cost Pricing	<ul style="list-style-type: none"> <li>Business is essentially operated as an internal activity within Council’s organisational structure</li> <li>Prices are set in accordance with commercial cost recovery</li> </ul>
Council Commercialised Business Unit	<ul style="list-style-type: none"> <li>A commercialised business unit (not a separate legal entity) is created by Council to manage the business, with a dedicated business unit manager employed</li> <li>Business unit has increased managerial autonomy for day-to-day operations</li> <li>Business may have a greater ability to source inputs from outside of Council, subject to the framework adopted</li> <li>Business features its own business and operating plan</li> <li>Business has more of a commercial orientation than under the full cost pricing reform option, and is subject to separate performance reporting (financial and non-financial)</li> <li>Prices are set in accordance with commercial cost recovery</li> </ul>

It is important to note that both reform options involve setting prices on the same cost base as the private sector, incorporating:

- Direct and indirect costs (e.g. wages, materials, consumables, superannuation);
- Administration and management costs;
- Return of capital/depreciation;
- Return on capital/assets (resources, infrastructure, land, buildings, plant/equipment);
- Incorporation of tax equivalents such as Council rates, land tax, payroll tax, FBT and taxes on business profits; and
- Adjustments for other advantages and disadvantages of public sector ownership.

Non-commercial activities undertaken by the business at the direction of Council may also need to be funded through community service obligation payments, if the business is unable to levy a commercial charge for such services across the community.

## Reforms Currently Adopted by Other Councils

The following table provides a summary of the structural reforms currently adopted by other Queensland Councils for their water and sewerage significant business activities.

### Water Supply and Sewerage

Business Size	Council	Current Reform Level Applied
Significant – Type 1	Mackay Cairns Townsville	Commercialised Business Unit
Significant – Type 2	Fraser Coast	Local Government Corporate Entity
	Rockhampton	Commercialised Business Unit
	Toowoomba Bundaberg Gladstone	Full Cost Pricing

Note: SEQ water and sewerage business activities have amalgamated into three distribution/retail entities that are separate entities from the shareholding Councils, leaving only Bundaberg, Cairns, Fraser Coast, Mackay, Rockhampton, Toowoomba and Townsville as the identified ‘financially significant’ water supply and sewerage businesses subject to NCP reforms under the Local Government Act.

# Water Supply and Sewerage Business Activity Profile

## Governance and Management

The diagram below presents the current structure of Council’s water supply and sewerage business, and its relationship within Council’s overall organisational structure. The business currently resides within the Infrastructure, Assets and Public Facilities department of council.



## Business Functions and Activities

The business is responsible for the management of fourteen water supply schemes and six sewerage schemes across the region as follows:

Service	Scheme
Water Supply	Anakie
	Duringa
	Bauhinia
	Emerald
	Blackwater
	Rolleston
	Bluff
	Sapphire
	Capella
	Springsure
	Comet
	Rubyvale
	Dingo
	Tieri
Sewerage	Blackwater
	Capella
	Emerald
	Rolleston
	Springsure
	Tieri.

The key water supply and sewerage services provided by the business to service the current population of approximately 32,000 people include:

- The sourcing and treating of raw water;
- Distributing water to customers (primarily potable water for urban and industrial use);

- Collecting sewerage and trade waste;
- Treating sewerage and trade waste;
- The supply of effluent and recycled water for non-potable use; and
- The discharge of untreated effluent.

To meet regional water demands, the business utilises a number of water sources as outlined below:

Scheme	Water Sources Utilised	Water Delivery Process
Anakie	<ul style="list-style-type: none"> <li>• Water bore</li> </ul>	Raw water is drawn from the bore, chlorinated and pumped to an elevated storage in the township where water is gravity reticulated
Bauhinia	<ul style="list-style-type: none"> <li>• Artesian bore</li> </ul>	Raw water is discharged from the bore to storage tanks, where it is chlorinated and gravity fed into the reticulation system
Blackwater	<ul style="list-style-type: none"> <li>• Bedford Weir</li> </ul>	Raw water is pumped from the weir to a Department of Natural Resources dam. The water is pumped from the dam to Council's raw water dam. The water is then pumped to the treatment plant where it is treated and then provided to two ground level storage reservoirs where it is fed into the reticulation system
Bluff	<ul style="list-style-type: none"> <li>• Blackwater water treatment plant</li> </ul>	Bluff is supplied water from the Blackwater water treatment plant via a rising main. Water is pumped and then gravity fed to a reservoir located in Bluff
Capella	<ul style="list-style-type: none"> <li>• Water bores</li> <li>• Surface water runoff</li> <li>• Flood water harvested from Capella Creek</li> <li>• Drought relief pipeline from Tieri</li> </ul>	Raw water is stored in three offstream storage dams from where it is pumped as required to the water treatment plant. Treated water is pumped from the treatment plant to a ground level reservoir located in the highest part of town. Water is primarily gravity fed from the reservoir to the majority of town
Comet	<ul style="list-style-type: none"> <li>• Comet river weir</li> </ul>	Raw water is drawn from an impoundment on the Comet River to the south of the township for treatment. Treated water is pumped to an elevated storage from where the town is reticulated
Dingo	<ul style="list-style-type: none"> <li>• Dingo and Springton creeks (water harvesting)</li> </ul>	Raw water is supplied to two storage dams, where it is then pumped to the clear water storage and then onto the treatment plant where it is filtered and chlorinated and stored in a ground level concrete tank. The water is then pumped to an elevated storage from where it is fed into the town reticulation
Duaringa	<ul style="list-style-type: none"> <li>• Dawson river</li> </ul>	The raw water is pumped to three raw water storage dams. The water is then pumped to the treatment plant and after treatment further to three storage tanks – one concrete and two Poly tanks. Water is then gravity fed to town.
Emerald	<ul style="list-style-type: none"> <li>• Weir impoundment on the Nogoia River</li> </ul>	Raw water is supplied to the water treatment plant in Opal St. Treated water is stored at the treatment plant in two reservoirs. Water is also transferred to storage in East Nogoia. The Opal St reticulation feeds all property to the west of the Nogoia River. The Rifle Range Road system feeds all of the area east of the Nogoia and south of the Capricorn highway
Rolleston	<ul style="list-style-type: none"> <li>• Comet river</li> <li>• Water bores (as backup)</li> </ul>	Raw water is pumped into a earth off-stream storage facility. This water is then pumped to the treatment plant for further treatment. Treated water is stored in an on-site tank before being pumped to a ground level storage reservoir for reticulation
Sapphire / Rubyvale	<ul style="list-style-type: none"> <li>• Water bores</li> </ul>	The raw water is aerated and then chlorinated and stored in reservoir, before being transferred to the Rubyvale storage reservoir on an as needs basis

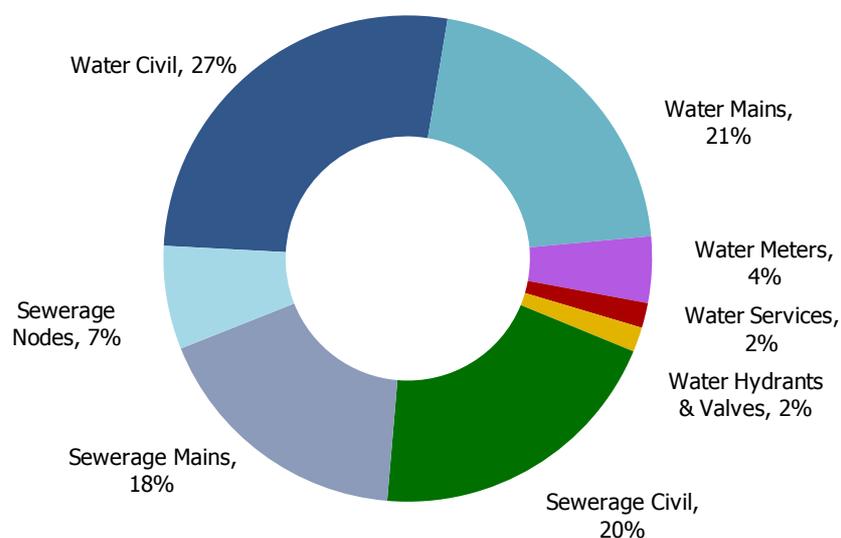
Scheme	Water Sources Utilised	Water Delivery Process
Springsure	<ul style="list-style-type: none"> <li>Water bores</li> </ul>	Two water supply systems serve the high and low areas of. Three bores feed two service reservoirs of the high system where treatment occurs. Five bores feed a service reservoir located in Dame Street where treatment also occurs
Tieri	<ul style="list-style-type: none"> <li>Fairbairn Dam</li> </ul>	Raw water is pumped via Oaky Creek Mine to Tieri through a pipeline which is privately owned and operated. Council purchases the water from Oaky Creek Coal at the point of delivery to the town and assumes water supply responsibility including treatment. Reticulation supply to the town gravity feeds from the treatment plant clear water storage

## Business Assets

Council’s water supply and sewerage business is responsible for the operation and maintenance of the region’s water and sewerage assets, including water treatment plants, sewerage treatment plants, reservoirs, water and sewerage pump stations and all associated underground infrastructure. As at 30th June 2011, the type and value of the assets utilised by Water Supply and Sewerage business were as follows:

Asset Type	Replacement Value (\$'000)	Accumulated Depreciation (\$'000)	Written Down Value (\$'000)
Water Civil	\$70,721	\$14,848	\$55,873
Water Mains	\$71,956	\$28,268	\$43,688
Water Meters	\$4,282	\$826	\$3,456
Water Services	\$13,751	\$4,485	\$9,266
Water Hydrants & Valves	\$5,073	\$1,625	\$3,448
<b>Total Water</b>	<b>\$165,782</b>	<b>\$50,050</b>	<b>\$115,732</b>
Sewerage Civil	\$49,888	\$8,011	\$41,877
Sewerage Mains	\$58,831	\$22,048	\$36,783
Sewerage Nodes	\$18,221	\$3,839	\$14,382
<b>Total Sewerage</b>	<b>\$126,940</b>	<b>\$33,898</b>	<b>\$93,042</b>
<b>Total Business</b>	<b>\$292,722</b>	<b>\$83,949</b>	<b>\$208,773</b>

Water Supply and Sewerage Capital Expenditure Sources, 2011-12 Budget

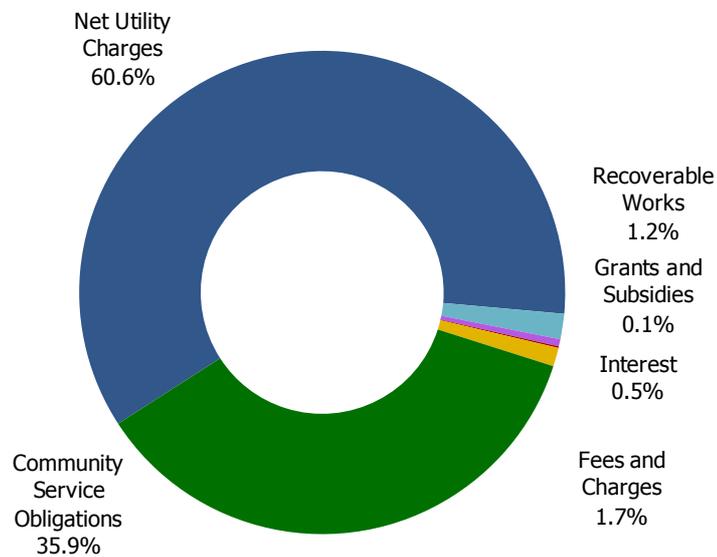


## Revenue Breakdown

The business collects a significant component of its revenue from water supply and sewerage utility charges (representing approximately 61% of 2011/12 total business operating revenues of \$21.7 million). The business currently operates a number of uneconomical water supply and sewerage schemes across the region, whereby Council contributes a Community Service Obligation (CSO) payment to the business in lieu of recovering the full costs via utility charges of operating the schemes. CSO payments made to the business by Council (including all approved CSO's) total \$7.8 million for 2011/12. (Note: a review of the calculation of CSO payments will be undertaken as part of the PBA).

The business also receives minor revenues for interest on cash balances, operating subsidies, as well as for services such as providing water supply and sewerage connections for customers.

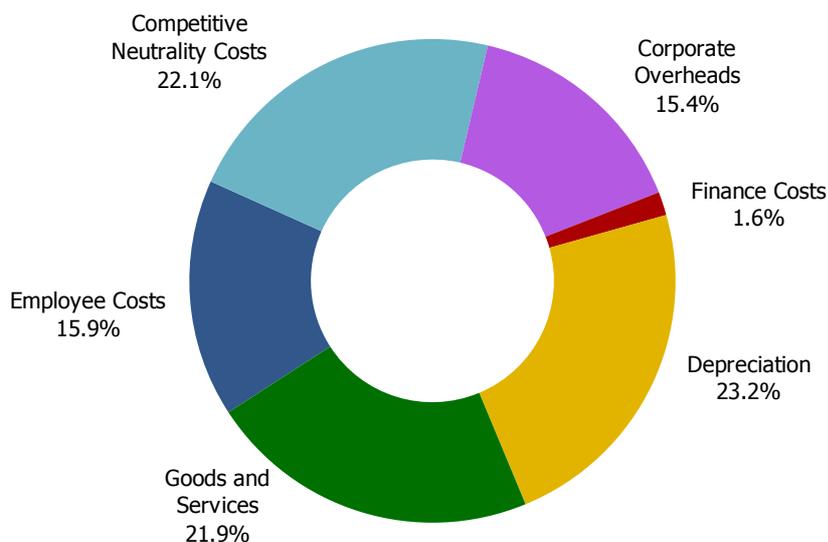
### Water Supply and Sewerage Operating Revenue Sources, 2011-12 Budget



## Expenditure Breakdown

The majority of the \$21.5 million in budgeted expenses in 2011/12 relates specifically to asset depreciation costs (\$5 million), competitive neutrality costs (\$4.7 million), goods and services (\$4.7 million) and employee costs (\$3.4 million), followed by corporate overheads and finance costs (\$3.6 million). (Note: a review of the calculation of competitive neutrality costs will be undertaken as part of the PBA).

### Water Supply and Sewerage Operating Expenditure Sources , 2011-12 Budget

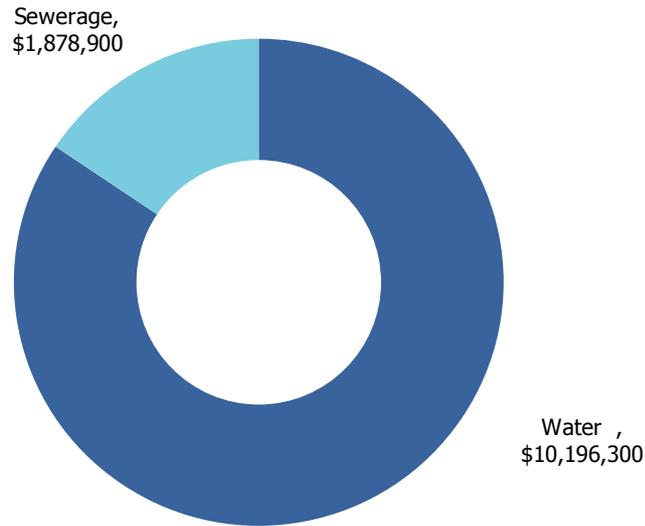


### Capital Works Program

The business expects to undertake approximately \$12.1 million in capital works in the 2011-12 year, with water supply works of \$10.2 million (84%) and sewerage works \$1.9 million (16%). Approximately \$7 million of water supply works expected to be undertaken relate to the East Nogoia water treatment plant upgrade in Emerald as well as water fluoridation in the Emerald, Blackwater, Tieri, Sapphire / Rubyvale water supply schemes.

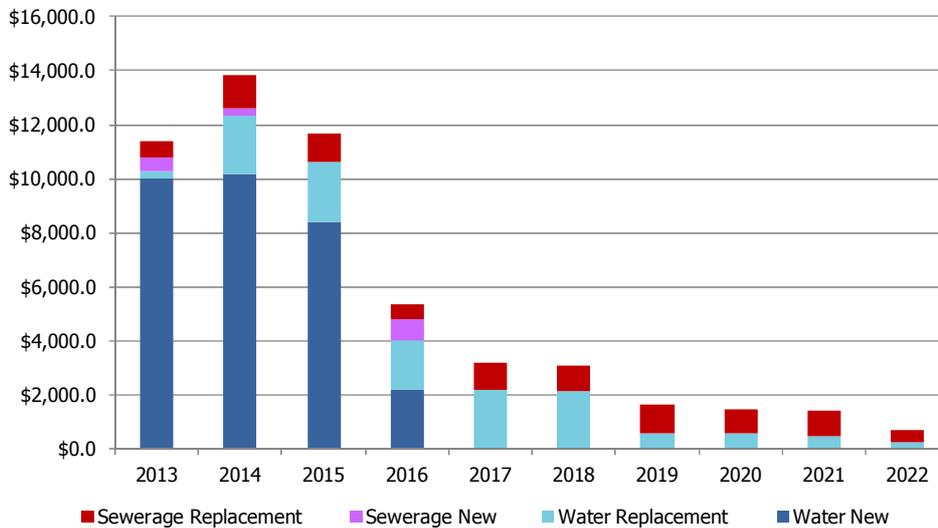
Scheme	Value (\$'000)
<b>Water Supply</b>	
Anakie	\$599,000
Bauhinia	\$79,000
Blackwater	\$719,500
Bluff	\$130,000
Capella	\$257,000
Dingo	\$40,000
Duaringa	\$86,800
Emerald	\$4,957,000
Rolleston	\$33,000
Sapphire / Rubyvale	\$49,000
Springsure	\$227,000
Tieri	\$269,000
Water Meter Replacement Region Wide	\$350,000
Water Fluoridation	\$2,400,000
<b>Sewerage</b>	
Blackwater	\$569,500
Capella	\$205,000
Emerald	\$442,300
Equipment Region Wide	\$25,000
Rolleston	\$35,000
Springsure	\$162,100
Tieri	\$440,000
<b>Total Business</b>	<b>\$12,075,200</b>

**Sources of Capital Expenditure , 2011-12 Budget**



The business is forecasting high short-term capital investment over the next three to four years (2013-2016) with milder rates of capital investment thereafter (reflecting a focus back on renewal / replacement works rather than investment in new infrastructure). High short term capital expenditure levels are predominantly driven by the investment in the East Nogoia water treatment plant in Emerald (\$28 million of new works) as well as rising main replacement works at the Bluff (\$7.5 million).

**Capital Expenditure Forecasts (\$'000), 2013-2022**



Note: Forecasts are in real \$

## Water Supply Utility Charges

Water supply utility charges are levied quarterly pursuant to the *Local Government Act 2009* on a user pays basis, with charges levied for all schemes across the region based on an access charge as well as a two tiered water consumption charge. Currently, the existing pricing structures of each of the former Councils continue to be applied by the business until such time a regional pricing review is undertaken. A discount of 15% is provided for prompt payment within 30 days (with the discount applied to the access charge component of the water charges only).

### Water Utility Charges 2011-12

Scheme	Access Charge	Consumption Charge	Notes
Comet	\$309.00	0-360kL = \$0.98/kL >360kL = \$1.96/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 180kL per six months</li> <li>Vacant land able to be connected to the water supply is charged at \$155 per annum (levied quarterly)</li> </ul>
Anakie	\$247.00	0-360kL = \$1.34/kL >360kL = \$1.79/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 180kL per six months</li> <li>Vacant land able to be connected to the water supply is charged at \$155 per annum (levied quarterly)</li> </ul>
Sapphire / Rubyvale	\$291.00** \$174.00**	0-360kL = \$1.30/kL >360kL = \$1.65/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 180kL per six months</li> <li>Vacant land able to be connected to the water supply is charged at \$184 per annum (levied quarterly)</li> <li>Consumption charges can vary depending on water availability, cost changes, and water conservation requirements</li> </ul>
Caringal Road	\$315	0-614kL = Nil >614kL = \$0.46/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 307kL per six months</li> <li>Pro rata water allocations are made for connections that share an allocation</li> </ul>
Emerald	\$247.00	0-360kL = \$0.98/kL >360kL = \$1.24/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 180kL per six months</li> <li>Vacant land able to be connected to the water supply is charged at \$124 per annum (levied quarterly)</li> <li>Properties outside the water scheme may be levied a higher charge in lieu of water headworks charges</li> </ul>
Springsure	\$486.00*	0-360kL = \$0.98/kL >360kL = \$1.66/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 180kL per six months</li> <li>Access charges are levied according to the number of units assigned per property category (with a residential</li> </ul>

Scheme	Access Charge	Consumption Charge	Notes
			access charge equivalent to one unit = \$486.00)
Rolleston	\$486.00*	0-360kL = \$0.98/kL >360kL = \$1.96/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 180kL per six months</li> <li>Access charges are levied according to the number of units assigned per property category (with a residential access charge equivalent to 1 unit = \$486.00 per unit)</li> </ul>
Capella	\$396.00*	0-360kL = \$0.98/kL >360kL = \$1.34/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 180kL per six months</li> <li>Access charges are levied according to the number of units assigned per property category (with a residential access charge equivalent to 6 units = \$66.00 per unit)</li> <li>Customers supplied via the Capella / Tieri pipeline are levied a \$280.00 access charge and a consumption charge of \$2.54/kL per annum in accordance with individual contract agreements</li> </ul>
Tieri*	\$420.00	0-360kL = \$0.98/kL >360kL = \$1.34/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 180kL per six months</li> <li>Access charges are levied according to the number of units assigned per property category (with a residential access charge equivalent to 6 units = \$70.00 per unit)</li> </ul>
Blackwater, Duaringa, Dingo, Bluff, Bauhinia*	\$512.00	0-360kL = \$0.98/kL >360kL = \$1.70/kL	<ul style="list-style-type: none"> <li>The first tier threshold is an annual equivalent, with the consumption charge calculation based on a first tier threshold allowance of 180kL per six months</li> <li>Access charges are levied according to the number of units assigned per property category (with a residential access charge equivalent to 4 units = \$128.00 per unit)</li> </ul>

\*Note: Access charge relates to a typical residential premises. Access charges vary depending on the type of property category and number of charge units applied per category.

\*\*Note: For the Sapphire / Rubyvale scheme, the access charge is \$291 for properties with a pressure fed water supply and \$174 for properties with a trickle fed water supply

## Sewerage Utility Charges

Sewerage utility charges are also levied quarterly pursuant to the *Local Government Act 2009* on a user pays basis, with charges levied for all schemes across the region on a per pedestal basis (with residential properties only levied for the first pedestal only). Currently, the existing pricing structures of each of the former Councils continue to be applied by the business until such time a regional pricing review is undertaken. A discount of 15% is provided for prompt payment within 30 days.

### Sewerage Utility Charges 2011-12

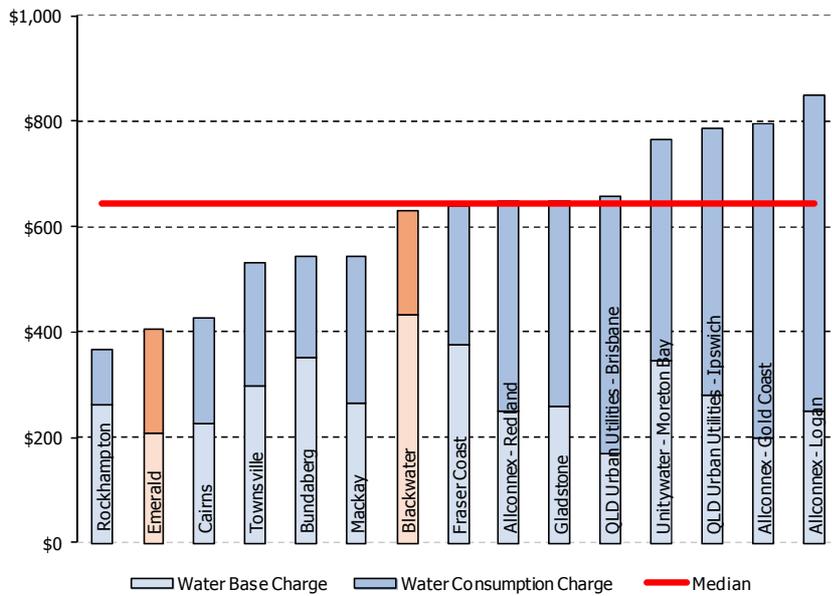
Location	Type of Premises	Sewerage Charge
Emerald*	Private dwellings and churches: First pedestal Second pedestal	\$534.00 Nil
	Vacant land	\$400.00
	Premises not connected	\$534.00
	All other premises First pedestal Next 20 pedestals and/or urinals >21 pedestals and/or urinals	\$534.00 \$480.00 \$106.00
	Exception	Macauley Estate
Springsure	Residential property (first pedestal)	\$559.00
	Premises not connected	\$559.00
	Non residential properties First Pedestal Each Additional Pedestal	\$559.00 \$475.00
	Vacant Land	\$336.00
Rolleston	Residential property (first pedestal)	\$615.00
	Premises within the Declared Area and Not Connected	\$615.00
	Non residential properties First Pedestal Each Additional Pedestal	\$615.00 \$522.00
	Vacant Land	\$338.00
Capella*	Dwelling	\$587.00
	Premises not connected	\$587.00
	Other premises non residential Each additional pedestal	\$587.00 \$196.00
	Vacant	\$391.00
Tieri*	Dwelling	\$912.00
	Premises not connected	\$912.00
	Other premises non residential Each additional pedestal	\$912.00 \$304.00
	Vacant	\$608.00
Blackwater	Private dwellings and churches: First pedestal Second pedestal	\$534.00 Nil
	Vacant land	\$400.00
	Premises not connected	\$534.00
	All other premises First pedestal Next 20 pedestals and/or urinals >21 pedestals and/or urinals	\$534.00 \$480.00 \$106.00

Note: \* The Macauley Estate Common Effluent Scheme area is levied special sewerage charges at a rate of \$534 for each rateable parcel of occupied with connection available, and \$400.00 for vacant land.

## Industry Price Benchmarking

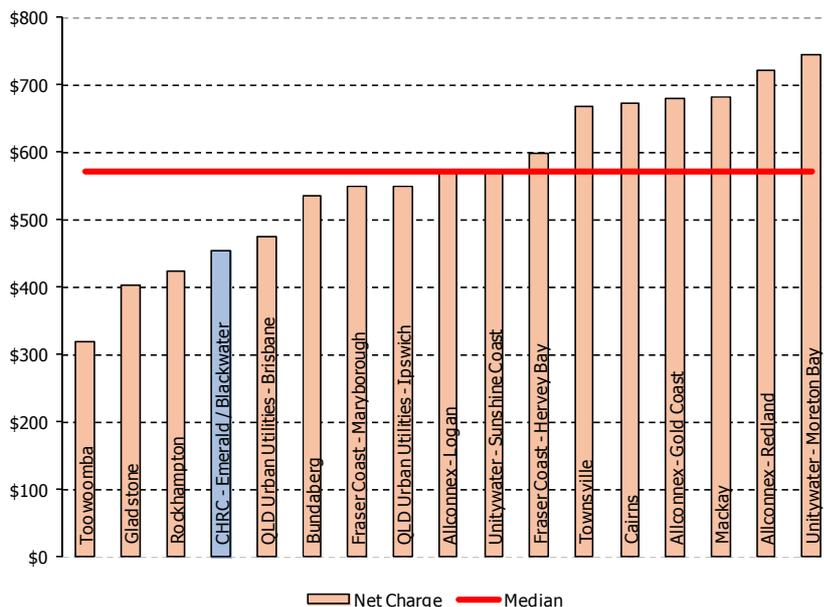
The following benchmarking information shows that 2011/12 water charges levied in the primary service areas of Emerald and Blackwater (72% of total connections) are at the low to medium range when compared to other water providers in Queensland (with the median charge of \$641.03 per residential property net of discount for the sample 37% above the charge of \$405.95 levied in Emerald, and 2% above the charge of \$631.20 levied in Blackwater).

### Average Residential Water Bill for a Property Consuming 200kL, 2011/12



The graph below compares an annual residential sewerage bill (net of any relevant discount) in 2011/12, selecting the main area/s of supply in the region. 2011/12 sewerage charges levied in the primary service areas of Emerald and Blackwater are at the low end when compared to other sewerage providers in Queensland (with the median charge of \$570.64 per residential property net of discount for the sample 20% above the charge of \$53.90 levied in Emerald and Blackwater).

### Average Residential Sewerage Bill, 2011/12



## Market Competition

The supply of water supply and sewerage services is generally non competitive in nature, with the business providing monopoly services to all water supply and sewerage schemes across the region.

## Regulation

Council's water supply and sewerage business is required to comply with the following key legislation:

- *Local Government Act 2009*;
- *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010*; and
- *Freedom of Information Act*.

As a designated water service provider recognised by the regulator (the State Government), the business must also comply with the requirements of the *Water Act 2000* and *Water Supply (Safety and Reliability) Act 2008* particularly in relation to business planning, asset management, customer service standards and the safety and reliability of water supply.

Regulatory requirements surrounding the application of NCP reforms to the business for 2011/12 include:

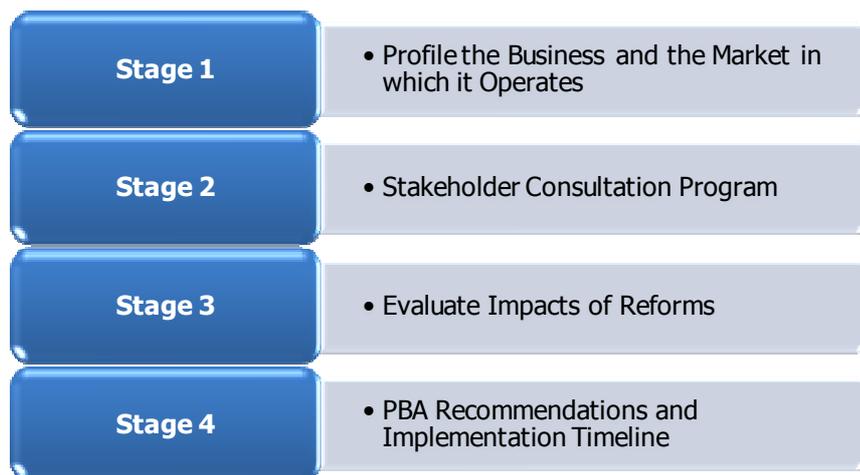
- Application of full cost pricing including financial adjustments to ensure competitive neutrality;
- Reporting the finances of the business separately from Council in the annual budget papers; and
- Specific reporting obligations for the business in Council's annual report.

## Public Benefit Assessment Process

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### Stages of Assessment

The following process will be adopted for the PBA, which will be undertaken in a transparent and accountable manner. The outcomes from the business and market profiling, stakeholder consultation and impact assessment processes will be used to drive the reform options evaluation to derive recommended structures for the water supply and sewerage business, and preliminary implementation timeline for adoption of the reforms to the business.



It is intended that the PBA will determine the most appropriate structure for the business moving forward. It is also hoped that the consultation outcomes from the PBA process will inform the future strategy for the business.

### Community and Stakeholder Consultation

Those stakeholders likely to be most affected by the reforms will be identified and involved in the process to the extent practicable. During the PBA, it is envisaged that consultation may occur with the following stakeholder groups:

- Customers and the General Public;
- Business and Industry;
- Environmental Groups;
- Suppliers and Contractors;
- Management of the Business;
- Unions and Employees of the Business; and
- Council.

Community consultation is an essential component of the PBA and consultation outcomes will also be used to help inform the future strategy for the business. Council extends an invitation to all stakeholders and the broader community to contribute to the assessment. The consultation program will include inviting written submissions from interested parties and, if required, conducting briefing sessions with selected key stakeholder groups. All submissions will then be considered in the evaluation process.

The following tables highlight the issues and questions likely to be relevant for each stakeholder group. Input is sought from stakeholders on the issues and questions raised, however, the issues provided are not meant to be an exhaustive list. Stakeholders should raise any other matters of concern or interest in their responses.

It is envisaged that the draft PBA Report will be available for comment in July 2012.

## Issues for Customers and the General Public

<b>Under all business structures, prices will be set to ensure appropriate cost recovery in accordance with user pays principles, i.e. the more you use, the more you pay. Service levels will also be set to meet community needs following consideration of customer affordability implications.</b>	
<b>Issues</b>	<b>Potential Questions</b>
<p><b>Price Level</b> Price levels should be the same irrespective of the business structure adopted, as Council is required to examine the full cost of their services when setting fees and charges.</p>	<ul style="list-style-type: none"> <li>• Do you agree with the idea of full cost recovery and commercial pricing for water and sewerage services?</li> <li>• If surpluses are generated through commercial pricing, what should they be used for?</li> </ul>
<p><b>Charging Structure</b> Charging structures should be similar across the two business structures, although the slightly greater autonomy under commercialisation could see more commercial charging structures in place that more closely reflect user pays.</p>	<ul style="list-style-type: none"> <li>• Do you agree with user pays charging structures for water and sewerage services?</li> <li>• What do you see as the main advantages of a user pays charging system?</li> <li>• Do you see any disadvantages of a user pays charging system?</li> <li>• Do you foresee any problems/issues from potential changes to charging structures under any of the reform options?</li> </ul>
<p><b>Service Levels</b> Despite commercial principles being applied to pricing decisions, the business will still ensure that service levels are at least maintained and preferably improved as a result of the reform options.</p>	<ul style="list-style-type: none"> <li>• Are you happy with the current level of service provided by the business?</li> <li>• What improvements could be made regarding the level of service provided?</li> <li>• Which of the reform options do you believe will produce the best service level outcome for customers?</li> <li>• What other impacts do you think structural changes to the business might have on service levels?</li> </ul>
<p><b>Community Service Provision</b> Under both business structures, both businesses will be more aware of the costs of its non-commercial community service obligations, and appropriate decisions can be made regarding the appropriate level of subsidy for these services from the general rate.</p>	<ul style="list-style-type: none"> <li>• Do you believe any subsidies, concessions or rebates need to be provided to community groups if commercial principles are to be adopted?</li> </ul>
<p><b>General Comments</b></p>	<ul style="list-style-type: none"> <li>• How do you feel about the application of commercial principles to the business?</li> <li>• Do you have any general comments about the reforms or the reform process?</li> <li>• Are there any comments you would like to make to inform the future strategy of the business?</li> </ul>