

## **2005 Water Management Conference**

### **Narrabri**

Official Conference Opening

Thursday 1 September 2005

### **Cr Col Sullivan President, Shires Association of NSW**

Thank you John for your address. I hope you are able to stay and join us for morning tea.

And thank you to Cr Sevil for your warm welcome to Narrabri. I am very pleased to return after the recent saleyard conference.

It is great having a representative from our National Government here to provide us with an overview of where we are heading on some of the water management challenges we will face.

I will now attempt to focus in on some of the key state issues that are currently impacting on our capacity to operate and maintain essential water and sewerage services for our communities.

On a positive note, I was impressed by the unified approach council owned water utilities took in advocating to the Minister for Health, then the Hon Morris Iemma MP, for the reinstatement of the NSW Drinking Water Monitoring Program. It was proposed that the Program would be cut and contributions towards its operations would be sought from water utilities. This program is crucial in gauging the quality of drinking water across the state. In a few cases the costs to councils were going to be significant. I understand the Minister received a quite a few submissions from us and as a consequence reversed the decision of the bean counters in NSW Health.

I hope with the recent changes in the State Government there will be similar positive reflections on a number of other water utility programs, issues and policies.

The Country Towns Water Supply and Sewerage Program is one such issue. As I am sure you are all aware a couple of months ago Minister Sartor wrote to some councils to advise that they would receive funding under Program. Others not as fortunate were advised by the Department that their applications may be considered again next year by the Prioritisation Committee.

It is our understanding that much of the funding under the Program is now fully allocated. For the remaining 200 or so projects on the list, funding is still needed. Even for many of those that did receive funding, it was considerably less than what they had planned for.

In response, the Water Directorate and the LGSA have recently commissioned a review of the Program and developed a joint position statement on the need to restore funding to the Program. A copy of our statement should be in your conference satchel. Cr McCaffery and myself have written to all Mayors outlining the seriousness of this funding situation and the need for you to join with us to take these concerns to your local Members of Parliament.

I do not have to go into detail about the implications of the Government not fully funding these essential services. Most importantly many communities will not have improved healthy and safe drinking water.

Over 60 small towns and villages will have to continue to rely on septic tank systems. Many residents paid an increase in their rates on the anticipation that their water utility will receive a funding subsidy for improved services. Several water utilities now possibly face having to repay upfront fee savings and pay penalty interest after having entered Load Reduction Agreements.

The Associations ask you to actively support our position of seeking:

- A commitment from Government that it will reassess residual funds available to the Program after making realistic allowances for cost escalation from 1994;
- An increase in annual allocations to more closely match the original agreement between Government and councils of \$85m per annum (in 1994 dollars);
- A return to a more consultative approach to administration of the Program including a joint review of the effect of the reduction in grants to individual projects introduced in 2004; and
- An increase in funding to assist councils comply with changes to legislation and application of more stringent regulatory requirements.

This is one of the most important issues we will be raising with the new Minister. While recognising he is new to the portfolio, this is not just an issue we need to pursue with the Minister but all of Cabinet. It is important that we are strong and coordinated in our efforts to seek an injection of funding into the program now, in the lead up to the next election.

I am pleased to report that we have been able to achieve some resolution on the issue of the separation of land and water in the valuation process under the Water Management Act. As you will be aware the introduction of the Water Management Act proposed changes to the valuation process, with consequential rating implications for around 44 councils and with significant impacts for 20 councils.

As Cr Miller reported last year, the value of farmland in NSW was approximately \$12 billion, with rates of \$150 million. It was estimated that water represents 40% of that value. Separation of the water value would potentially have reduced the rateable farmland value to \$7.2 billion reducing rate revenue by \$60 million to \$90 million.

Estimated rate revenue impacts on individual councils ranged from \$3.6 million (Narrabri's neighbour Moree Plains - 50% of farmland rate revenue) down to \$7,000. Naturally, the largest impacts were to be in areas with large scale irrigation.

The State Government has recently introduced the Local Government and Valuation Amendment (Water Rights) Act 2005. The provisions in the Act provide councils with greater flexibility for dealing with these rating implications, and on the whole the Associations have supported the options offered. These include providing:

- councils the powers to increase the ad valorem rates on land categorised as farmland, similar to that in other states; and
- greater flexibility in the sub-categorisation of individual farmland properties for rating purposes, including an insert on irrigability.

Unfortunately, however, the Act has not stretched to providing councils with the capacity to raise their base rates. Nor has it addressed the question of transition costs that will be faced by councils, such as increased valuation fees, system modifications, public education and administration costs.

These amendments go some way to providing councils with tools, however, we recognise the transition process could be difficult. We intend to monitor closely the implementation these elements of the Act. Please do not hesitate to contact me if there are additional problems we have not foreseen.

Next, I would like to discuss with you the Best Practice Management of Water Supply and Sewerage Guidelines. These were introduced over a year ago. While the Associations supported their development in principle, some key concerns were identified with their application. These we have made very clear to the Department and the Minister at the time.

While a number of modifications have been made councils still continue to have outstanding concerns on a number of criteria in the Guidelines. These include:

- That the implementation of these guidelines creates bigger hurdles for small country water authorities to jump. The sustainability of the work of these authorities is reliant on the availability of funding from the Country Towns Water Supply and Sewerage Program to undertake backlog works.
- Good sustainable policy is dependent on some key components; one in particular is the establishment of realistic implementation timeframes. What is achievable for one authority may take a little longer for another. I do not accept that new sustainable work practices cannot be achieved within local government, but often their successful adoption is critically dependent on when. The Guidelines on the whole take a one size fits all approach. While there are some built-in exemptions for the Minister to act upon, the foundations of the Guidelines are not flexible so discretion is very limited.

- Perhaps one of the most alarming elements was the change in the proposed water supply tariffs. While the Minister has extended the implementation timeframe to June 2007, many councils have raised concern about the underlying principles of the tariff structure and its sustainability implications. While the principles of demand management and water conservation objectives are applauded by the Associations, the requirement to achieve at least 75% of residential revenue through usage charges as I understand has not been piloted and I am not convinced that this pricing structure will not create revenue volatility with its greater emphasis on water consumption. As consumption varies, such as in drought and in time of heavy rainfall, it impacts on revenue forecasts, leaving utilities financially vulnerable.
- Integrated Water Cycle Management planning requirements continue to raise concerns. There still remains some confusion as to the value of applying all aspect of the Department's IWCM Guidelines to all local water management systems. Many councils have questioned the practicality of this and in turn cost implications of this process. To access grant money the plans need to be completed within a very short period of time, unachievable for many councils.

Last year the Minister made the review of the Best Practice Guidelines conditional on the Associations agreeing to provide in-principle support for the removal of the impediment in the Local Government Act that prevents council owned water utilities from charging an integrated water price. This concept involves council combining their water and sewerage charges.

The Associations considered this carefully. There were a number of issues of concern, including the impact on vulnerable customers, issues of transparency and accountability and the potential of this pricing system to reduce revenue stability.

However, a number of councils have approached the Associations in favour of combining their water and sewerage funds. I understand this would involve holistic water and sewerage planning and a capacity to integrate the funds to deliver some more innovative solutions.

So the Associations have agreed in-principle to the supporting integrated water pricing on a number of conditions:

- That it remain optional and does not become a condition for access to grant funding or other programs, and
- The amendments to the Local Government Act should not only enable the integration of pricing but also the transfer of funds between water and sewerage businesses.

Now this is complete we are ready to start negotiations on the review of the Best Practice Guidelines.

While not a significant issue to all, we are very aware of the recent Price Determination for Bulk Water Services provided by State Water. This may have significant impacts on utilities in some valleys. The Associations in their submission

to IPART expressed some strong concerns about the price increases proposed by State Water. We emphasised our broad support for cost reflective pricing and sought acknowledgement of the efforts of council water utilities to move towards two part tariffs.

In the light of these changes and the impact of drought, the increases sought by State Water, in some cases, seemed unreasonable and unjustified. I understand the IPART determination is now out. Although it is stated that most increases will only be by CPI, in some areas where it is viewed that there is a shortfall in cost recovery, prices will increase by 10%. I am keen to find out how this determination may impact on council water utilities operations and I hope it is raised for discussion in tomorrow's pricing workshop.

In looking to the future we welcome the opportunity to work with the Department of Energy, Utilities and Sustainability. As a member of the LGSA Water Management Committee and an interested observer on the LGSA/DEUS Liaison Committee I have been impressed with the responsiveness of the staff at the Department. In having had such an interested Minister in water issues, it is them that have to deliver. We do appreciate their efforts to consult with our industry.

Before concluding I would also like to acknowledge the cooperation and the work we have undertaken with the Water Directorate. Recently we have seen two good partnership projects developed – the Country Towns water Supply and Sewerage program review and the submission to the National Water Commission. I believe this demonstrates some good outcomes when the skills of our elected representatives and water managers are combined.

We have some challenges ahead. I hope the conference proves to be 'time out' for you to network and consider the issues your council faces in the broader picture of the water industry.

On behalf of the Local Government and Shires Associations, thank you for joining us here in Narrabri.