



**roxby**water  
a division of roxby council

**Submission to the  
Essential Services Commission of South Australia**

**WATER & SEWERAGE LICENSING**

**IN**

**ROXBY DOWNS**

**August 2012**



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## EXECUTIVE SUMMARY

Application of requirements to licence Roxby Council for the provision of Council's water and sewerage obligations under the *Water Industry Act 2012* by the Essential Services Commission (the Commission) will involve complex legislative and operational issues which will impact on the precise role the Commission takes.

Primarily this is due to the provisions of the *Roxby Downs (Indenture Ratification) Act 1982* (the Act), which is an overriding piece of legislation which could render aspects proposed by the Commission to be inconsistent with the provisions of the Indenture, particularly in relation to the Commission's powers relevant to pricing determination where such inconsistency occurs the Indenture will prevail.

It is also, however, heavily impacted by the unique role and function of the Council, its obligations to the community, Council's financial constraints due to the State Government's management of its funding obligations to Council under the Indenture and uncertainty in relation to the expansion of the Olympic Dam Mine and Town which, as recently as 22 August 2012, was deferred.

As a result it is the Council's demonstrated view that the Commission's role in the area of Price Monitoring, if any, be restricted to overseeing the level and justification of Council's policy approach to its obligations generally. Already Council is arguably well advanced in meeting National Water Initiative (NWI) pricing principles; even though it is arguable whether they are applicable to local government generally and Roxby Downs in particular.

Roxby Council is supportive of the Commission's current role in relation to regulating Council's Electricity operations and believes that it can complement the Commission's new role under the Water Industry Act.

However, Council believes that it is essential that as outlined in the submission the Commission is able to tailor Retail Licence conditions that suit Council's unique operational requirements.

Following recent constructive discussions about such licence conditions with Senior Commission staff, Council believes that this productive partnership approach will make it possible to achieve a 1 January 2013 start date for a licence.

## 1 INTRODUCTION

On 1 July 2012, the Essential Services Commission became the independent economic regulator of the South Australian water industry under the *Water Industry Act 2012*. The Commission undertakes all regulatory functions with the primary objective of protecting the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services.

Under the Act, from 1 January 2013 entities (including SA Water, local government bodies and private operators) which provide one or more of the following retail services to end-use customers will be required to obtain a license from the Commission:

- Drinking water services
- Sewerage services (including Community Wastewater Management Systems)
- Recycled water/storm water services
- Other non-drinking and miscellaneous water and sewerage services

The licensing regime will include requirements to comply with consumer protection frameworks and pricing determination, which the Commission must establish under the terms of the Act.

In implementing the regime, the Commission will have regard to the scale and scope of undertakings, with a view to ensuring that there is an appropriate transition process to the new arrangements for smaller scale operators over the coming months. This will entail working with entities such as local councils to provide guidance and advice on implementation of the new regime at a local level.

To provide detailed guidance to, and seek comment from, potential licensees and other stakeholders on the nature and scope of the licensing, consumer protection and pricing regimes, the Commission has recently released the following consultation documents and has invited submissions.

- Licensing framework for water and wastewater retail service providers
- Water retail regulatory instruments (codes and guidelines) to apply to licensees
- Proposed price regulation frameworks for non-SA Water licensees

Council received notification from the Commission on 7 August 2012 and despite the tight timeframes required, has provided a response by way of this Submission as Roxby Council, as identified through its business unit Roxby Water.

As indicated the issues associated with Council's operating environment are complex and not necessarily easy to understand.

Council's Submission is comprehensive and attempts to highlight these complexities and to guide the Commission to a successful, logical and beneficial conclusion for all parties.

## 2 BACKGROUND

### 2.1. Overview

The Municipal Council of Roxby Downs (the Council) was created through the Roxby Downs (Indenture Ratification) Act 1982. (*Indenture*) Act. The Council operates with all the powers, functions and duties of a South Australian Local Government Authority under the Local Government Act 1999 (the LG Act) subject to the provisions of the Indenture which sets out a number of notable exceptions i.e.

- The requirement of elected Councillors has been suspended with an appointed "Administrator" performing all of the functions of Council.
- Other provisions of the LG Act relevant to the operation of an elected governing body have been suspended.
- BHP Billiton is required to develop Crown Land that is under its care and control including all required infrastructure and then transfer it to Council at no cost for operation, maintenance and replacement
- The State Government is required to develop various public facilities. Some it manages in an ongoing manner whilst others are transferred to Council for subsequent management at Council's cost.
- Council operates the utilities ROXBY POWER (Electricity) and ROXBY WATER (Water and Sewerage), as well as the normal MUNICIPAL Council functions. This is facilitated through the creation of separate power and water business units.
- The State Government and BHP Billiton are required to fund an annual operating Municipal Deficit in circumstances where the State Government and BHP Billiton have approved the Council's budget for a financial year prior to the commencement of that financial year.
- BHP Billiton and the Council are required to agree upon any general or other council rate imposed within the town.
- All of Councils external works are carried out by contactors

### 2.2. Strategic Management Plan

Strategically the operation of the Council is far reaching. The Olympic Dam Mine, and the local community have undergone substantial structural change. The community's "interdependence" with the Mine, its aspirations, future and, by implication, Council's approach is summarised in the following *raison d'être*:

**"To turn a World Class Mining Deposit into a World Class Mining Operation requires people with high specialist skills that choose BHP Billiton and Roxby Downs as their preferred destination over many other world-wide alternatives."**

The Annual Business Plan and Budget adopted by the Council annually sets out Council's proposed services, programs and projects for the relevant financial years. It outlines Council's aims to maintain efficient services for the community and continues progress towards the longer term objectives as set out in the Strategic Management Plan adopted by the Council on 14 May 2012.

The Strategic Management Plan was developed following a major review. It is an important reference document for Council operations as it not only provides detail of the 5 Pillars, 15 Goals, and 59 Objectives associated with the Plan but also articulates a sound vision of:

**"Building a Word-Class Community to support a World-Class Mine"**

This is especially important as in Roxby's case, given the importance of the town to BHP Billiton's operation and the State's overall financial well being, and the proposed expansion (whenever this occurs) the community has every right to expect the Council to attempt to fulfil its obligations as articulated through its Strategic Management and Annual Business Plans. This approach also accords with the State Government's Strategic Direction.

As shown below various provisions within Councils Strategic Management Plan involving the operations of Roxby Water and Roxby Power provide the service delivery and financial support that is integral to meeting a range of these strategic objectives.

## LEADERSHIP

### L1 Civic Leadership

"A responsible consultative and inclusive body dedicated to good governance, proactive leadership and provision of quality lifestyle options and services"

L1.1 Equitable, high quality and customer oriented Council services and facilities that meet the needs of the community

L1.2 Effective planning to meet the expanding needs of the town

L1.5 A financially sustainable and Independent Council

## SOCIAL EQUITY

### SE3 Access to services and facilities

"Access to a range of services in a remote location that is equal to or better than more popularised locations"

SE3.1 Efficient, reliable and cost efficient water and sewerage services

SE3.2 Cost efficient power distribution and utility services to the township

## 2.3. Significant Factors

The physical location and fiscal environment in which the Council operates is extremely challenging, in a state of transition and has some degree of uncertainty. Indeed, as recently as 22 August 2012 the proposed expansion of the Olympic Dam Mine was deferred and this has a direct impact on the Roxby Downs ownership.

A number of significant factors influence the operations of Council and have a direct impact on Council's water and sewerage operations. These include the following:

### 2.3.1. Indenture Considerations

The provisions of the Act and Indenture significantly affect the financial operation of Council with the State Government, BHP Billiton and Council each required to meet various infrastructure and financial contributions.

Compliance by all parties with the provisions of the Indenture, as well as with the provisions of the LG Act; is a view strongly endorsed by Council's Audit Committee. This issue is a vexed one beyond Council's control but if all of the requirements of the Indenture were complied with, particularly with respect to Clauses 21 and 22 of the Schedule to the Indenture, then this would undoubtedly increase Council's financial viability.

In 2011 the Indenture Act, under which the Municipal Council of Roxby Downs operates, was amended to facilitate the expansion of BHP Billiton's (BHPB) Olympic Dam mine to become the world's largest open cut mine. Whilst commencement of this project has been deferred, it is likely that either the variation date for commencement of the 2011 amended Indenture will be extended or at some time a new Indenture with new provisions renegotiated. As a result variations to the current requirements are likely.

### 2.3.2. Indenture Partner Contributions

The Council's budget is also required to be submitted to the State Government and BHP Billiton for review and agreement upon. Any shortfall in the funding of Council's Municipal Operations to be funded by BHP Billiton and the State Government in equal shares in prescribed circumstances as set out under clause 29(3)(b) of the Indenture. Council does not know from one year to the next the extent of municipal deficit support that it will receive from each party. Historically the amount has declined in actual and real terms; in part due to financial pressures being placed on the State Government, and is well below the local cost of operating in Roxby Downs.

Over the past few years all State Government Departments have been subjected to substantial cuts in their levels of recurrent funding, and are, therefore, examining ways to reduce proposed expenditures. This has impacted on the Department of Minerals Resources Development which, on behalf of the State, funds the Council's Municipal Deficit in conjunction with BHP Billiton.

Historically the extent of municipal deficit support received from BHP Billiton and the State Government has remained relatively static or with a small increase. The last 3 years have seen the amount decline from \$1.6mill to \$0.6mill. This is a major concern as whilst in general terms Roxby Water and Roxby Power potentially generate enough revenue to meet operating and future infrastructure requirements, Council's Municipal Operation does not, with approximately \$1.4mill of depreciation not funded.

Council's concern is that it requires the integration of all of its entities (i.e Roxby Water and Roxby Power) for it to be able to function effectively. Overall organisational efficiency and effectiveness would be problematic if Roxby Water and Power were treated as separate entities and Council was unable to fully recover management and operational costs; including the recoupment of costs forgone by Council under the terms of the Indenture.

### 2.3.3. BHP Billiton Occupied Crown Land Rateability

The Indenture exempts BHP Billiton from paying rates for developed crown land that it occupies under licence. As it stands now this applies to the majority of properties at Olympic Dam. Based on 2011/12 rates the amount of rate income forgone is approximately \$270,000. This situation continues to adversely distort Council's financial performance and places an unfair burden on all other ratepayers.

### 2.3.4. Roxby Factors

There are a range of factors peculiar to Roxby Downs which also need to be considered. These include the following:

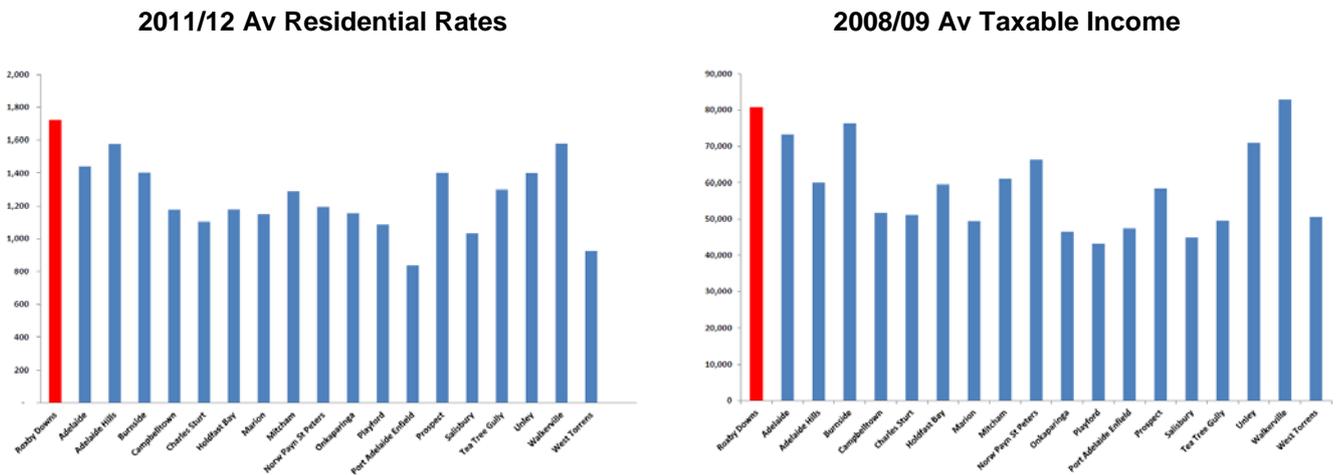
- (a) impacts of increasing operating costs associated with maintaining the town's facilities in a remote location. As part of Council's current Service Level Benchmarking Review process an average cost factor increase of around 30% above Adelaide Rates is considered to apply across the spectrum of Council's activities. This occurs especially in relation to contract labour to which Council is dependent upon for its entire water and sewerage operation where Council has only one (1) available contractor with the necessary expertise. Council needs to have a buffer against rapid increases in the costs associated with these contracted services;
- (b) the increased requirements for improved management of Council's assets, which requires outside resources to improve and quantify a sound asset management strategy. One potentially significant issue is the as yet unknown impact of desalinated water on a range of Council's water related assets; especially those with copper components;
- (c) meeting realistic community expectations consistent with Council's *raison d'être*;
- (d) addressing a range of strategic development and financial issues associated with BHP Billiton's proposed Olympic Dam Expansion;

**2.3.5. Other Factors**

- (e) meeting ever increasing expectations required of Local Government generally in relation to compliance under OH&S, Risk Management, Asset Management and Governance requirements. Additional external resources have been required over the past few years which has increased on Council’s overall recurrent operational costs;
- (f) costs arising from the introduction of the carbon tax, the exact extent of which is not clear;
- (g) the need to ensure that Roxby Water’s income from the provision of water supply and sewerage services can accommodate requirements to provide assets to meet the planned expansion and to replace assets as well as return commercial dividends to the Municipal Operation; and
- (h) impact on the community of increased municipal, water, sewerage and electricity rates and by variations in changes to property valuations.

**2.3.6. Municipal Rates**

As indicated below Council has been required to provide a steady increase on its rating effort. When benchmarked against Metropolitan Adelaide Councils, notwithstanding the lag between average rate and taxable incomes, Council has high average residential rates in comparison with other Councils.



**2.3.7. Skills and Knowledge**

As an industry sector, it is only in recent years that whole-of-life cost principles have been introduced which was historically minimally funded, and minimally maintained on the whole. In recognition, major efforts have been, and continue to be, made in achieving sound data (asset knowledge) bases, informed long-term cost modelling of systems. No Council can afford to go to minor component level in its recording and costing, sound operation and maintenance practices, sound job numbering and financial cost recording, and remediation of existing schemes to bring them to current regulatory compliance.

In Roxby Downs we are well advanced in improving this situation but in order to do so, rely upon outside industry expertise at some considerable cost. Unlike major utility providers, in house skills and knowledge is simply not obtainable locally. Council remains under resourced in this area

**2.4. Context**

It is submitted that the Commission’s role in the regulation of water and sewerage services must not be treated in isolation but in the be seen in the context of Council’s overall role and responsibility to the Roxby Downs Community, and the financial constraints that it is under due to the State Government’s management of its funding obligations to Council under the Indenture.

### 3 OPERATIONAL OVERVIEW

Council's appointment as a Water Distribution and Sewerage Authority for the Roxby Downs Township arises as a result of clause 13 of the Indenture. This Section requires Council to comply with standards normally applicable to SA Water, specifies that Council should take practical efforts in sewerage effluent wastewater re-use, specifies how much Council can pay for water and also confirm that Council's water services may operate at a profit.

Council operates water and sewerage services under the ROXBY WATER banner as a separate business unit.

Water meters are read concurrently with electricity meters on a quarterly basis at the end of June, September, December and March each year. Some 1,680 accounts for water and sewerage are sent out early the following month. Customers can pay by cash, cheque, credit card, EFT or direct debit from a nominated bank account. BPay payments for rates have recently been introduced with water and electricity to follow.

Council's financial management system is one developed for Local Government. It was installed in 1999 and has been adapted to suit electricity and water operations with separate add on modules. Its integrated nature is essential with 3 separate customer bases being stored, all related back to a single property assessment. It has been periodically upgraded and fulfils all of the basic tasks to a reasonable level but until recently the ability to present a customer account in a desirable form has been compromised.

Council provides a range of communications to customers as well as regularly weekly updates of all of Council's operation via the Council page in the Monitor Community Newspaper which is delivered free to all residents and regular sessions on the local RoxFM Community Radio Station. A copy of Council's January 2012 Customer Flyer is attached ([Appendix 8](#)). This is always provided with the January Water Accounts and contains information about any price changes.

#### 3.1. Water Supply

Water for Roxby Downs, Olympic Dam and the mine site is sourced from the Great Artesian Basin near the southern and eastern areas of Lake Eyre. Pumped some 200 km south to a desalination plant on the BHP Billiton mining lease, water is then cooled, desalinated and stored for later distribution. Water for the township is then pumped some 10km to a covered water supply dam on the outskirts of town.

Roxby Water then purchases water from BHP Billiton at a predetermined price set out in the *Indenture*. Council distributes, checks the quality against water quality standards and if needed, chlorinates the water at our pump station before pumping to residents within the township via approximately 35 km of pipe work.

Water is very soft, of high quality, has a small amount of natural fluoride and is low in dissolved solids. Water has been tested and compared against a range of other urban water supplies and bottled water with favourable results but is notoriously aggressive for copper pipes and fittings.

#### 3.2. Water Rates & Consumption

Council operates a 3 tiered incentive based pricing structure for water. Charges are based on allocated access units according to the size of the water meter serving the property.

Water charges are set per calendar year with the level of increase proposed presented to the community publically as part of Councils Draft Annual Business Plan. Any increase is then incorporated into Council's budget which is then reviewed by BHP Billiton and the State Government.

Current Water rates effective from January 2012 are as follows

All Properties	Charges per access unit per quarter
Supply Charge	\$42.00
First 34 kl	\$1.65 per kl
34 – 120 kl	\$3.00 per kl
Over 120 kl	\$4.95 per kl

Notwithstanding the very low rainfall, high pool ownership and young age of our community water consumption continues to be moderate and compares favourably with other regional communities.

Statistic	2010/11	2009/10	2008/09
Vol of water sold to customers (kl)	641,84	657,551	728,991
Average Price per kl	\$3.14	\$3.19	\$3.00
Estimated township population	4,948	4,762	5,087
Total water consumption. ( <i>litres/head per day</i> )	355	378	412

Notes:

- (i) *The above table should be used as an overall guide only but a given that populations are estimates.*
- (ii) *Under the Indenture a minimum allowance of 650 litres of water /head/per day plus a reasonably sufficient quantity for parks & gardens and community parks needs to be provided to the Town.*
- (iii) *Current and historical consumption is below this amount and favourable considering our low rainfall, young community and large and ever increasing number of domestic swimming pools.*
- (iv) *2008/09 and 2009/10 includes water used in BHP Billiton's Subdivisions B & C residential developments.*

### 3.3. Sewerage Services

Roxby Water also provides a full sewerage system to all properties within the township. Sewage and sillage are transported through some 35km of sewerage mains, manholes and 8 pump stations and pumped to a series of lagoons to the west of the township.

In addition, rainfall run-off in the township's catchment area of some 5 sq km is separately collected and pumped via the latter stage of the sewerage system to the town's sewerage effluent lagoons. When the facultative treatment process is completed, treated effluent water is then pumped to the town's two ovals and golf club for re-use as irrigation.

Whilst this system represents good environmental practice and saves the community many thousands of dollars in watering grassed areas, our high evaporation rate (approximately 3m per year) causes some concern.

For instance in winter we have too little storage capacity and need to encourage use, whilst in summer we sometimes have to restrict use to conserve the resource. Management issues can also arise when large influxes of stormwater enter the primary dams.

Water intended for re-use (i.e. irrigation purposes of the golf course and oval) is pre-treated to meet guidelines for re-use of water. Regular testing is carried out in accordance with the EPA licence requirements.

### 3.4. Sewerage Charging

Since June 2000 Council has used the South Australian Local Government Association property unit system for the charging for sewerage. This followed a major review.

Sewerage charges effective from 1 January 2012 for all freehold properties abutting a sewerage main are \$160 per property unit per quarter (\$640 per annum). For residential premises, this is currently less than charges that are applied by SA Water in Country South Australia for residential properties.

## 4 LEGISLATIVE CONSIDERATIONS

### 4.1. Overview

The Indenture provides Council with the power to operate to operate Council's water and sewerage functions.

Importantly pursuant to Section 7(2) of the Act, where there is any inconsistency with any Act or Law the Indenture shall prevail. This means that to the extent the Water Industry Act gives rise to inconsistencies with the provisions of the Indenture, particularly in relation to water charging requirements, the provisions of the Indenture will override the application of the Water Industry Act.

In 2011 the Act and Indenture, under which the Municipal Council of Roxby Downs operates, was amended to facilitate the expansion of BHP Billiton's (BHPB) Olympic Dam mine to become the world's largest open cut mine. Whilst commencement of this project has been deferred it is likely that either the variation date for commencement of the 2011 amended Indenture will be extended or at some time a new Indenture with new provisions renegotiated. As a result variations to the current requirements are likely.

Of fundamental significance is that monitoring of compliance with the provisions of the Indenture and any compliance are to a large extent the sole prerogative of BHP Billiton and the State Government. Whilst Council is affected and must follow this legislation, if there are any matters that are not complied with, particularly those that affect the operation of Council, then Council is powerless to intervene. It can only raise the matter with the respective Indenture Partners and influence. It has no legal recourse.

### 4.2. Specific Provisions

Most of the considerations relevant to the role of the Commission are contained within Clause 13 of the Indenture, entitled '*Joint Venturers Water Requirements*'.

A summary of some of the relevant provisions include the following:

*13(2) Potable Water Storage Facilities are the responsibility of the joint venturers.*

*13(3)-(6) Provides options for water to be sourced from SA Water's system*

*13(18) Water Charges - Details the applicable methodology whereby the Joint Venturers to pay the State where they have obtained water from SA Waters' distribution system*

Not applicable as BHP Billiton have sourced potable water direct from the Great Artesian Basin

*13(20) Establishes the Distribution Authority for the distribution of potable water, recycling and operation of water and sewerage facilities within the township*

Council is the Distribution Authority for this purpose and operates its water and sewerage services as a separate business entity under the Roxby Water banner.

*13(21) The relevant Joint Venturers shall supply or cause to be supplied potable and non-potable water to the Distribution Authority on the following terms and conditions:—*

*(a) quantity of water to be "the base quantity") at the same unit rate as that calculated pursuant to sub-clause (18) of this Clause.*

The current price is set at \$1.10 per kl. This is less than that required under sub clause 18 which is approximately \$1.32 per kl. The 2011 amendment to the Indenture uses this amount as a future base calculation.

- (b) *the base quantity shall be the quantity of potable and non-potable water which is agreed by the Joint Venturers and the Minister to be sufficient to meet the residential, industrial, local government, commercial, community and recreational needs of the township appropriate to a level of production at the minesite of 150 000 tonnes per year of contained copper in saleable Product and associated by-products calculated with reference to a reasonable usage allowance per head of population (being a minimum allowance of 650 litres of potable water per head of population per day plus a reasonably sufficient quantity of potable and non-potable water for public and community parks, gardens and recreational uses)*

As indicated under section 3.2 Council is well under this amount. The 2011 amendment to the Indenture reduces the capped consumption amount 550 litre per head per day but increase the applicable township size to be equivalent to 1.5 million tonnes of copper saleable product.

- (c) *Indicates requirements to cover of the situation in the event that the Joint Venturers or any of them supply or cause to be supplied water to the Distribution Authority in excess of the base quantity (which it is hereby expressly agreed the Joint Venturers shall not be under any obligation to do)*

Situation has never arisen

- (d) *Indicates requirements in the event that the relevant Joint Venturers provide or cause to be provided the base quantity or any water in excess thereof to the Distribution Authority from more than one source*

Situation has never arisen

- (e) *Indicates the requirements for the Distribution Authority to be invoiced quarterly and oiliness provisions for payments to variation in the bill*

Council is invoiced monthly

- (f) *Indicates the requirement for water consumers and sewerage facility users within the town who are employees of or are employed or retained by the Joint Venturers to be given continuity of supply*

Situation has never arisen

- 13(22) *The charges (including stepped charges) to be levied for the supply of potable water and the provision of sewerage services shall be determined by the Distribution Authority, provided that the charges to be levied shall be such that each consumer shall be entitled to a quantity of water to be agreed by the Joint Venturers and the Minister at a price not exceeding the rate payable by the relevant Joint Venturers or an associated company pursuant to sub-clause (18) of this Clause plus 30% (or such other percentage as may be agreed (failure to so agree shall not be subject to arbitration) between the Distribution Authority and the Joint Venturers) of such rate and the Distribution Authority may operate at a profit and shall not operate, as far as is reasonably practicable, at a loss, provided, however, that nothing in this sub-clause shall be construed as preventing the Distribution Authority from making reasonable financial provision to meet the costs of future maintenance or replacement. Any profit earned or derived by the Distribution Authority from the charges (including stepped charges) levied on consumers for the supply of potable water and the provision of sewerage services shall be paid to the municipality within thirty days of the profit for the relevant financial year of the Distribution Authority being determined in accordance with consistently applied accounting standards and principles generally accepted in Australia. Any moneys paid to the municipality as profit pursuant to this subclause shall be revenue of the municipality for the financial year in which any such moneys are paid and shall only be used for proper purposes of the municipality in accordance with this Indenture.*

This clause overrides the application of the Water Industry Act. It provides Council with the power to make a profit from its Water & Sewerage operations. In 2011/12 the profit equated to 3.1% written down value of assets well with a notional cap of 6% that we understand applies to SA Water. Application of a 30% cap on base quantity charges has never been applied.

In light of the application of this clause, the Council remains legally responsible for determining water prices, notwithstanding any determination made by the Commission.

- 13(22A) *The Distribution Authority shall, as far as is reasonably practicable, encourage its consumers to observe and implement sound water conservation principles and practices and generally to use water resources efficiently.*

This carried out by Council. Adopted pricing methodology also provides significant incentives

- 13(23) *(The obligations of the relevant Joint Venturers to construct the Storage Facilities pursuant to sub-clause (2) of this Clause and to deliver the base quantity to the Distribution Authority pursuant to sub-clause (19) of this Clause shall, in respect of the base quantity, be limited to ensuring the supply of such requirements as are appropriate to the scale of the Joint Venturers' operations from time to time with a maximum obligation appropriate to a level of production at the minesite of 350 000 tonnes per annum of contained copper in saleable Product, saleable Non-minesite Product and associated by-products.*

Water storage facilities are BHP Billiton's responsibility. The 2011 amendment to the Indenture increases the applicable township size to be equivalent to 1.5 million tonnes of copper saleable product.

- 13(24) *All of the potable water supply and sewerage facilities constructed within the township or for township purposes are to be constructed and maintained to standards normally adopted by the Engineering and Water Supply Department and the quality of the water supplied for township purposes shall be to standards reasonably acceptable to the South Australian Health Commission.*

BHP Billiton and Council comply with water requirements as determined by the South Australian Health Commission. As far as practicable, Council operates its water and sewerage operations in accordance with SA Water standards / practices. In addition we currently operate our billing side of operations to meet SA Water practices as well as mirroring, where possible, our operational requirements for the retail operations of electricity as licensed by ESCOSA. The potential lack of clear legislative clarity in relation to our operations is a potential opportunity that could form part of a future license.

- 13(25) *Except where expressly necessary for the purpose of implementing the provisions of this Clause 13, the provisions of the Water Resources Act shall apply to all work undertaken pursuant to this Clause.*

### 4.3. Olympic Dam

The Olympic Dam Township, located approximately 10km north of the town is located within the Roxby Council Municipality adjacent to BHP Billiton's mine lease. It consists of a major Heavy Industrial Estate and Contractors Camp located on crown land under the care and control of BHP Billiton plus several freehold commercial and industrial properties and Olympic Dam Airport.

BHP Billiton provides all of the electrical, water and sewerage services to this locality. Council is unaware of the exact nature of their arrangements or if it will be subject to the proposed licence regime.

Council however considers that from a consistency perspective that it should, at the very least, have pricing and compliance aspects that mirror Council's. In this regard if BHP Billiton were willing to consent, Council would be prepared explore opportunities for a more active involvement. Eg meter reading and billing services.

### 4.4. Licence Implications

Based on relevant overriding legislative considerations, it is submitted that any Licence issued to Council by the Commission must meet and not conflict with the relevant provisions contained within the Indenture. Consequently, Council's advice is that licence provisions should be restricted to overall customer billing and financial reporting requirements.

## 5 FINANCIAL OPERATIONS

Like all Local Government Authorities the Council is required to prepare budgets and complete Financial Statements in accordance with Local Government Act 1999 and then as an entire Council entity encompassing all of Council's operations.

The Indenture creates three (3) separate entities, which for funding purposes, requires them to be accounted for on a separate basis. This is because:

- Municipal Operations are "deficit funded" by the State Government and BHP Billiton;
- Roxby Power (Electricity Supply) is not permitted to make a profit (commercial dividend) but can return any financial surplus back into financial reserves for future asset replacement; and
- Roxby Water (Water & Sewerage Services) is permitted to return a financial dividend back to the Municipal Operations.

Given the complexities associated with Council's operations; namely that the Act is silent on the actual method required to be used to calculate the actual deficit for Council's Municipal Operation and its need to have a coherent Long Term Financial Plan, Council has been working on a range of policy developments within an overall financial planning exercise. Actions include the following

- Preparation of relevant policies endorsed by Council's Audit Committee to formalise arrangements that have previously been applied over a number of years. Copies of the following are attached.
  - RCP 55 Business Units Financial Accounting Policy. [Appendix 1](#)
  - RCP 93 Budget Management Policy, [Appendix 2](#)
- In preparation of the possibility that Council would take waste from BHP Billiton's Proposed Hiltaba Camp Council commenced some research on possible policy provisions that may apply. [Appendix 3](#). Council also discussed the matter with representatives of the Commission at a meeting in mid 2009. In part this background research revealed that interstate experience indicted that commercial dividend of around 5% to 6% of an authority's written down value of assets was considered acceptable. We understand that In South Australia SA water operates on 6% figure.
- To assist with respect to improving the financial analysis of Council's operations over and above the mandatory indicators required preliminary work has commenced in relation to the potential development of performance indicators relating specifically to water and sewerage entities. The Victorian Auditor-General's Report *Water Entities: Results of the 2010–11 Audits*, provide some additional guidance.
- Council has steadily increased resources in management and valuation of Council's assets and is confident going forward of the accuracy of the resultant financial reconciliation.

Unlike local government generally, as indicated in [Section 4.2](#), pursuant to clause 13(22) of the Indenture, Council is permitted to make a profit from its water and sewerage operations. In 2012/11 equated to 3.1% written down value of assets, well with a notional cap of 6% that we understand applies to SA Water.

In the context of Council's overall operations, this is significant. As indicated in [Section 2.3.1](#) given reductions in Government and BHP Billiton funding pressure on this revenue stream continues to rise with above average price increases inevitable if Council is to fulfil its overarching statutory and community obligations.

As indicated by work thus far, Council is mindful of the need to justify to the community, State Government and BHP Billiton the level of municipal distribution (commercial dividend) on a short and long term basis. Until Council is provided with long term information from BHP Billiton and the State Government, the exact amount cannot be determined in any reliable manner. Meanwhile It Is

considered that the work undertaken this far and methodology used produces a conservative figure. Overall however, Council would not like to see prices increase unnecessarily.

Any additional control by the Commission in relation to price determination (in the event it did apply to the Council) would potentially be financially disastrous for Council and lead to massive increases in rates.

A financial overview (unaudited) of Council's operation is attached as information. [Appendix 4](#)

## 6 PRICE REGULATION DISCUSSION PAPER

Council provides the following comments raised in relation to ESCOSA's Discussion Paper "Proposed Price Regulation for Water & Sewerage Providers Other than SA Water.

### 6.1. Executive Summary

Council notes interalia the Commissions comments reinforcing a "light handed" approach to price regulation of water and sewerage providers and that it will also keep in mind the need to tailor its regulatory approach to the specific circumstances of each operation to ensure that the benefits of regulation outweigh any associated costs.

Council concurs and submits that it is critical that careful consideration of the complex nature of Councils operation, as seen in the context of Council's overall role and responsibility to:

- the Roxby Downs Community;
- the complex obligations of the State Government which have not been met; and
- the financial constraints that the Council is under.

### 6.2. Pricing Order

Council notes the Commission's powers to issue pricing orders for compliance. It is considered essential that decisions accord with not only the practical realities of operation in Roxby Downs but also accord with the provisions contained in the Indenture as, if there is any inconsistency the Indenture prevails. [Section 4](#)

For instance a relevant issue for the Commission to address is the fact that any application of National Water Initiative (NWI) pricing principles to Roxby Water are unlikely to be applied to BHP Billiton under the provisions of the Indenture. Strict adherence would seem a bit pointless.

### 6.3. Nature of Services

It is noted under 2.1.2 as referenced in appendix B that Roxby Downs Council is listed as providing a Community Waste Management System. As previously indicated this is incorrect. Council provides a full sewerage service with a current a lagoon type treatment.

Council also provides a recycled and stormwater water for its public reserves and golf club.

### 6.4. Existing Pricing Principles

Council, current pricing regimes, which are not subject to determination by the Commission by virtue of clause 13 of the Indenture, are as follows:

#### 6.4.1. Drinking Water

Council operates a 3 tiered incentive based pricing structure for water. This approach is particularly relevant give the source of water (Great Artesian Basin), price / quantity caps under the Indenture and high private pool ownership within town. Charges are based on allocated access units according to the size of the water meter serving the property.

This methodology arose following a comprehensive review in 2000 around the time that SA Water sought comment for a Discussion Paper it prepared in December 1999 "Water Pricing in South Australia". A copy of Council's the relevant discussion paper is attached. [Appendix 5](#)

Essentially there was strong persuasive argument and evidence that the then pricing regime that was successfully implemented by the Hunter Water Corporation applied represented an appropriate and equitable methodology that met with the then National Water Guidelines.

Broadly speaking the number of access units is based on the size of the water meter. Eg A 20mm meter is allocated 1 access units whilst 50mm meter which has 6.25 times the volume capacity than a 20mm meter is allocated 6.25 access units.

Similarly each step threshold is multiplied by the number of access units. So a 20mm meter has the first step at 34kl whilst a 50mm meter has the first step at 212.5kl

This review also addressed the need to increase retail prices on the back of advice from WMC Resources that it was entitled under the provisions contained within the Indenture to increase the price that it charged Council for potable water by 70%.

Following this review conversion was made over a a two year period. As part of the process water and electrical billing was realigned together.

The then methodology was subsequently refined in 2005 to remove the slight distinction between residential and business customers and thereby improve equity between all customers as follows

- The level of the top tier was reduced based on a review of the then pricing effects. Review identified the need to retain the current 34kl first step but reduce the second step from 150kl to 120kl. For a 3 person family this equated to around the current average water consumption per person within the town.
- An access charge based on the number of access units replaced a minimum charge. As a result all properties have their access units determined purely according to the size of the water meter. This contrasts to some which had had their access units determined according to the number of residential units per property. In addition Business tariffs were the same in every respect as Residential tariffs.

Transition of Councils water pricing is shown in the following table.

1999		2000-2005		2005 to Now	
<b>All Charges Per Property</b>		<b>All Charges Per Access Unit Per Quarter</b>		<b>All Charges Per Access Unit Per Quarter</b>	
Min Houses	Set Amount	Min Houses	Set Amount		
Min Other	% of CV	Min Other	As above		
All Consumption	Set Rate			Supply Charge	Set amount
		First 34 kl	Rate 1	First 34 kl	Rate 1
		34 – 150 kl	Rate 2	34 – 120 kl	Rate 2
		Over 150 kl Business	Rate 3	Over 120 kl all	Rate 3
		Over 150 kl Residential	30% greater than Business		
		<b>Access Units (size of water meter)</b>		<b>Access Units (size of water meter)</b>	
		20mm meter	1 or no of residential units	20mm meter	1 all users
		25mm meter	1.5625	25mm meter	1.5625
		50mm meter	6.25	50mm meter	6.25
		80 meter	16	80 meter	16

Some 13 years later the Roxby Downs community has readily accepted the current water pricing both from an operational and philosophical viewpoint.

It would appear that Council's current water charging is more logically based than SA Waters as meets many if not all of the listed National Water Initiative Principles. It is relatively simple and non discriminatory between individual users. Council would need to be strongly convinced of the merits of any change.

### 6.4.2. Sewerage

Council operates a Property Unit system for the charging of sewerage services in accordance with the LGA's Code for Establishing and applying Property Units as a factor for the imposition of Annual Service Charges Community Waste Management Systems.

This methodology arose following a comprehensive review in 2000 around the time that SA Water sought comment for a Discussion Paper it prepared in March 2000 "*Sewerage Pricing in South Australia*". A copy of Council's relevant discussion paper is attached. [Appendix 6](#)

Essentially there was a range of arguments presented for different methodologies but no overwhelming support for any one method. The traditional use of valuation based methodology adopted by SA Water (then and now) is deemed to be a measure of an ability to pay. Whilst generally accepted in the context of municipal rating for the provision of a multitude of services, this approach was not considered to be so easily justified for a single service such as sewerage. Furthermore the situation in Roxby Downs is vastly different from most other areas as residents have high taxable incomes, which in the main have no comparable relationship with the valuation of the respective properties.

Given that sewerage costs are heavily dependent on infrastructure costs it was considered that a move away from valuation practices would be an improvement. Consequently, and in the absence of any other definitive arguments Council elected to revert to the Local Government Model which had by then generally wide acceptance within Local Government.

Current State legislation allows differential pricing for CWMS to be determined on the basis of the LGA "Property Units Code". This Code was developed through joint efforts of SA Water, the Departments of Health and Local Government Services, industry representatives (experienced wastewater Consulting Engineers) and public administrators. The basic "unit" is a 3.5 person household generating 490 L wastewater per day. This is a figure which was taken from historic field measurements.

Local Councils are entitled to raise revenue on the basis of nearest-up rounding of the estimated average daily wastewater generated by different property types (eg, schools, hotels, caravan parks, Laundromats etc). It is a method to base charges on relative loading of a property on the system.

As a result price setting using the Property Units Code as an aid is widely accepted by communities and Local Authorities, and is much easier to use.

Given the relative small size of the town and limited number of uses information to support individual calculations was readily obtainable. Some 13 years on, the Roxby Downs community has readily accepted the current sewer pricing methodology which is simple, and logically based.

In view of this method having wide acceptance, justification and support throughout local government generally, it is suggested that it be retained unless some demonstrated superior model that meets with local government's general acceptance is forthcoming.

### 6.4.3. Recycled Water and Stormwater

As outlined, Council provides recycled water including infrequent harvesting of stormwater for its ovals and golf club. Costs are absorbed into Roxby Water's operation, as the disposal of recycling water is essential for the successful operation of Council's sewerage lagoons. Without this arrangement Council would have additional storage costs and have difficulties in complying with EPA requirements for unauthorised discharges to the environment.

There is no separate charge applied to end users (Council and the Golf Club) and going forward all indications are that this will be the same approach given that these areas will expand and take up all of the predicted available resource.

Any proposal to regulate this approach in Local Government generally ignores the community service charter and responsibilities of a Council as defined in the Local Government Act. This is also the case in Roxby Downs. If a so called transparent charging was applied it would lead to greater charges for all end users including the local Area School who have no open space and use Council's ovals via a user agreement and directly lead to higher municipal rates. This would be hardly welcome and difficult to pass on given the general decline of State Government funding generally and to the Department of Education and Children's Services.

Such an approach should only be ever considered for a strictly commercial arrangement and in any event this would be more appropriate for Local Government itself to determine rather than any external body with no role to play in relation to the wider responsibilities of Councils.

## **6.5. Proposed Pricing Principles**

### **6.5.1. National Water Initiative Pricing Principles**

As a general comment Council is supportive of the aim to achieve and meet best practice in all of its operations and particularly in relation to its water and sewerage services. Meeting National Water Initiative (NWI) Pricing Principles is seen as a good guide but whether they are applicable to local government generally or Roxby Downs in particular, is questionable.

In a local context there are a number of issues to be considered that may or may not conflict with meeting NWI Pricing Principles. These include the following:

#### **6.5.1.1 Drinking Water**

**(a) Financial Reporting**

As already identified Council has explored this path with respect to its water pricing and is exploring options of reporting against additional financial indicators specifically recognised as relevant for water and sewerage authorities.

**(b) Indenture Considerations**

The provision of the Indenture provide Council with a monopoly operating environment with the provisions associated with the purchase and retail of water in a closed market not subject to contestability.

**(c) Recovery of Capital Expenditure**

Under the Indenture as part of its town development responsibilities, BHP Billiton are required to provide all infrastructure including roads, water and sewerage as part of the development. This however only relates to the size of a town capped by provisions within the Indenture. (approx 9000 people) Unlike a "normal developer" this cost is likely not fully recoverable. BHP Billiton may only sell allotments at the cost of development. Any water supply headwork's costs are however the total responsibility of BHP Billiton. However, once 'gifted' to Council, these assets are to be maintained by Council.

Council has to ensure that all operational costs (including depreciation) are funded from user charges. A profit is also provided to Council's Municipal Operation. All capital replacements are funded from existing nominal cash reserves accumulated from previous years funding of depreciation. New Capital assets are also funded in this manner. Loans have not this far been required. It is anticipated that this arrangement will not alter in the future.

**(d) Setting Urban Water Tariffs and Setting the Service Availability Charge**

It would appear that from a review of Council's current water pricing methodology and application it would meet NWI Principles. This is due to the fact that all customers regardless of type or use are treated the same with an appropriate supply charge / step price structure.

**(e) Cost Recovery**

Council operates water supply on a full cost recovery basis with a municipal distribution (commercial dividend) returned to Council's Municipal Operation

(f) **Developer Charges**

BHP Billiton is required under the Indenture to fund all head works for water infrastructure for water supply. Water supply reticulation is however capped to a township population of around 9000. Accordingly Council has not applied any Developer Charges for these types of infrastructure works.

However, this rationale does not apply to any other “infill” developers who have effectively not previously contributed towards the existing infrastructure, yet reap its benefits. In these circumstances a developer contribution is considered appropriate

As an interim arrangement Council has developed a policy RCP – 58A Water & Sewerage Infrastructure Contributions. [Appendix 7](#). It is considered appropriate that this be refined with changes need to be equitable and with strong oversight and support by Council’s Audit Committee. It should be applied to new “infill” as well as new developments.

(g) **State Government Community Service Obligations**

Unlike other Councils connected to SA Water’s operations Council does not receive the benefit of a State Government requirement on SA Water to provide an industry Community Service Obligation (CSO) such that actual prices for water are standardised across the State rather than priced to meet local circumstances. In 2010/11 this amounted to \$180.78 million for water and sewerage services. (pg 82- 83 SA Water 2010/11 Annual Report)

SA Water’s 2010/11 does not appear to break down the proportion of CSO that applies to Country Water. However as shown in [Appendix 9](#) based on a previous analysis undertaken in 2002/03 this proportion is in the order of 78%.

Council is clearly disadvantaged in this area but ironically, unlike most other local governments connected to SA Water’s reticulation, this non application would likely meet NWI principles.

### 6.5.1.1 Sewerage

(a) **Application**

Council notes that NWI principles do not cover capital expenditure incurred in providing wastewater or stormwater services. Council provides both. We also note that a number of principles have been suggested as being applicable

In principle Council has no objection so long as they are consistently applied.

(b) **Developer Charges**

BHP Billiton is required under the Indenture to fund head works (lagoons) and all sewerage. However obligations are capped to a township population of around 9000. Accordingly Council has not applied any Developer Charges for these types of infrastructure works. However, this rationale does not apply to any other “infill” developers who have effectively not previously contributed towards the existing infrastructure, yet reap its benefits. In these circumstances a developer contribution is considered appropriate

As an interim arrangement Council has developed a policy RCP – 58A Water & Sewerage Infrastructure Contributions. [Appendix 7](#). It is considered appropriate that this be refined with changes need to be equitable and with strong oversight and support by Council’s Audit Committee. It should be applied to new “infill” not developments.

(c) **Property Charging Mechanisms**

As previously outlined in [Section 6.4.2](#) Council has moved away from valuation based methodology and favours the current a Property Unit system for the charging of sewerage services. This is in accordance with the LGA’s Code for Establishing and applying Property Units as a factor for the imposition of Annual Service Charges Community Waste Management Systems.

(d) **State Government Community Service Obligations**

Unlike other Councils connected to SA Water's operations Council does not receive the benefit of a State Government requirement on SA Water to provide an industry Community Service Obligation (CSO) such that actual prices for sewerage are standardised more or less across the State according to valuation variations between metropolitan and country areas rather than priced to meet local circumstances. In 2010/11 this amounted to \$180.78 million for water and sewerage services. (pg 82- 83 SA Water 2010/11 Annual Report)

SA Water's 2010/11 Annual Report does not appear to break down the proportion of CSO that applies to Country Water. However as shown in [Appendix 9](#) based on a previous analysis undertaken in 2002/03 this proportion is in the order of 11%.

Council is clearly disadvantaged in this area but ironically, unlike most other local governments connected to SA Water's reticulation this non application would likely actually meet NWI principles.

How these current funding models and arrangements relate to the application of NWI Pricing Principles requires detailed analysis. This has yet to be carried out and requires further discussion and consideration, especially in relation to the potential financial impacts on Council.

The lack of clarity in relation to what is expected and appropriate is a matter that needs to be discussed in partnership with the Commission, especially give the complex nature of Local Government generally and Roxby Downs in particular.

**6.5.2. Abuse of Market Power**

Council notes the Commission's comments concerning the situation of potentially taking a "heavy handed" form of price regulation in the event that the Commission believes that there is material misuse of market power.

Whilst there may be some "Private Providers" that this power may need to be applied it is considered that in relation to Local Government generally that this if applied that the Commission would be over grossly stepping the mark. The delivery of water and sewerage services is always a minor part of a Council's operation and if a local government has no market power to abuse, it's a Local Government!

In any event here are higher order legislative audit and public consultation controls in place including potential external reference to the State Ombudsman and Auditor General. Unlike industry service providers, Local Government is readily accountable and operates in a transparent manner.

In the case of Roxby Downs if this situation was applied, it would also be contrary to the provisions of the Indenture. For this reason it is submitted that the Commission does not have power to regulate the prices imposed by Roxby Water in a manner consistent with the provisions of the Indenture.

**6.5.3. Duration of First Price Determination Period and Reviewing the Effectiveness of the Pricing Principles Framework**

Council notes comments in relation to the length of the initial price determination period and particularly the decision of the Commission to fix this for SA water for a 3 year period but considers the need and approach to be translated to Local Government and Roxby Downs specifically to be unacceptable. By virtue of the operation of the Indenture, the Commission has no role to play in fixing prices; that is for the Council,

As indicated in [section 2.5](#) from one year to the next Council has no idea of what if any Municipal Deficit support will be provided with the level unrealistically declining. This is not due to any meaningful consideration of Council's budget but more akin to the respective political and budget positions of BHP Billiton and the State Government.

As briefly indicated in [section 2.4](#) there are a large number of State Government responsibilities directly contained within the Indenture which is either not complied with or no decision has yet been made as

to future financial commitments. An unknown in relation to potential expansion of the Olympic Dam Mine and Township adds further complication.

In this environment it is virtually impossible to know what future operating costs and infrastructure requirements will be required for an expanded town and as a consequence Council's Long Term Financial Plan has significant unknowns. As a direct consequence Council does not know what the level municipal distribution (commercial dividend) will be needed going forward.

As outlined above, pursuant to the Indenture, it is for the Council alone to determine the level of charges adopted by Council in relation to Roxby Water Services. The Commissions role, if any, should be restricted to overseeing the level and justification of Councils municipal distribution (commercial dividend) that Council adopts.

## 6.6. Price Monitoring Frameworks

Council notes the Commissions comments in relation to options for monitoring prices and those that apply to other regimes, all of which have a singular purpose in their operation, not the wider community / local government focus. Unlike statutory authorities Council has direct public accountability mechanisms.

### 6.6.1. Price Monitoring

As indicated in [section 6.5.3](#), the Commission has no role to play in determining prices to be imposed for Roxby Water services. For this reason Adhoc Pricing Monitoring, Set Period Price Monitoring and Trigger Price Monitoring are also inconsistent with the Indenture. In any event, in the case of Roxby Downs such arrangements are unwarranted and inappropriate. This is illustrated by the following:

- inflation Measures. The Roxby Factor for inflation is higher and far more volatile than other areas within South Australia and extremely difficult to measure. It is greatly affected by labour rates locally and limited supplies. Eg Council has only one (1) contractor that has the necessary expertise to carry out plumbing work and that company's charge out rates are strongly affected by the costs associated with meeting BHP Billiton's construction and compliance standards;
- as indicated in [Section 2](#) there are a range of factors associated with fulfilling community needs, and indenture compliance aspects that affect Council's Budget and in turn the level of price that Council must charge for its water and sewerage operations. Monitoring individual trends for these specific entities has minimal bearing on the matter. That will be by and large dictated by the level of municipal distribution (commercial dividend) and asset replacement and maintenance requirements;
- given the direct relationship between Council's water and sewerage revenue and level of municipal distribution (commercial dividend) any alteration in water and sewerage revenue will have a direct impact on municipal rates. The same customers will be affected but with a different revenue raising methodology;
- proposed water pricing consumption profiles have no relationship to those experienced in Roxby Downs due to the community's demographic profile and associated water use and long hot summer climate with high reliance of the use of evaporative air-conditioning and large evaporation rates that affect those residents with swimming pools; and
- the Commission currently licences Council's Roxby Power electricity operations has no control in relation to the level and structure of tariffs charged as these are set under the Indenture. Unlike water and sewerage services which are property owner based, electricity retailing relates to the tenant who arguably may be more potentially more vulnerable than the property owner. Given this Roxby Waters operations should be treated in a similar vane.

The Commission's role in this area, if any, should be restricted to overseeing the level and justification of Councils municipal distribution (commercial dividend) that Council adopts and through discussion

and advice assist Council in any analysis of its pricing methodology to ensure that it meets Industry best practice.

Council has a number of community service obligations as core functions and has never had nor will it have any intention of “ripping off” water and sewerage customers with higher charges that cannot be justified to the community, BHP Billiton and the State Government.

### **6.6.2. Price Reporting**

Council has many public transparency obligations and welcomes the Commissions assistance in improving these and as per current ESCOSA reporting requirements. With respect to the Council's electricity operations the Council has no issue with providing reports on Council's operations annually to the Commission.

Councils that reuse treated wastewater are currently required to carry out quarterly system monitoring, to provide water quality test results to the Health Department and also to submit an annual system activity report.

All EPA licensed schemes are required to report to the EPA as part of license renewal applications. All spills or environmental impacts must be recorded and reported in accordance with strict EPA reporting standards

As indicated in [Section 5](#) Council already has a number of external review mechanisms and is required to have Council's Auditor certify Council's Municipal Deficit for the year. The segmentation of Roxby Water and Power operations is already carried out and the function of external audit certification can easily be formalised and reported annually.

Of the two options suggested providing information to the Commission such as an up to date pricing schedule, pricing policy statement, and provide information on factors underpinning pricing movements would seem more appropriate for Local Government but in reality, excessive given Council's other legislative obligations. Further, in light of the fact the Commission has no role to play in setting Roxby Water prices, the relevance of providing this information to the Commission is questionable.

### **6.6.3. Accounting Standards**

ESCOSA should not impose price regulation, modelling, monitoring or setting which conflicts with the LG Act and associated legislation and standards as follows:-

- Accounting Standard AASB116, which requires Councils to value public infrastructure on the Fair Value (generally Depreciated Replacement Cost) methodology. Valuation of "legacy" assets on the "deprival" methodology as per NWI Pricing Principles may be in conflict with AASB116; and
- Councils should be free to use whichever depreciation methodology best fits their particular Business Plan.

### **6.6.4. Reporting and Monitoring**

Under the LG Act, Councils are required to declare pricing information to their ratepayers at every budget time (prior to fixing or issuing of Rates Notices).

It is specious to suggest that the provisions of this legislation is at odds with sound Public Enterprise Business Practice, or are in any other respect inadequate in terms of protecting the rights of ratepayers. Pricing has to be transparent, and Council's performance with respect to Accounting Standards is audited annually by external auditors.

In this respect, having to report to the Commission is clearly a doubling up of effort. The question has to be asked as to what the Commission can achieve through the proposed Price Monitoring and

Reporting requirements, when Local Government is already highly regulated in precisely those areas of performance.

The proposition is equally debatable that the specific and complex costing and reporting requirements of the NWI principles are measurably superior to the current requirements on Local Government in SA, or that they will achieve any beneficial outcome for ratepayers (the contrary is argued that the additional level of bureaucracy, and the cost imposts it will place on sparsely-resourced Councils, will produce a net negative outcome). Certainly this will be the case in Roxby Downs which is a deficit operated Council.

In any event under the Indenture, Council is required to report to the State Government and BHP Billiton and as Administrator is subject to potential direction from the Minister for Mineral Resources Development.

The additional layer of reporting needs to be demonstrated as beneficial in order for it to have any benefit and Council encourages the Commission to meet this outcome.

## 7 DRAFT WATER RETAIL CODE

Council notes the Commission's proposal to regulate the retailing behaviour when supplying retail services (water and sewerage) to customers and the Draft Retail Code which has been developed to cover SA Waters operations in the first instance and then other retailers. The following comments are considered relevant.

### 7.1. Roxby's Situation

In a retail sense there are a number of local factors applicable in Roxby Downs that need to be considered by the Commission.

#### 7.1.1. Overview

As the Commission is aware, Roxby Council already holds and has held for many years an electricity retail and distribution licence for our Roxby Power operations. Thus far we have fulfilled our current statutory obligations including compliance with the Commission's requirements for electricity retailing. Significantly the Commission has accepted through submissions various amendments to the then electricity retail code to reflect local circumstances.

Examples of this are as follows:

- increasing the bond requirements for new customers to two (2) years rather than one (1) year;
- approving an average quarterly residential bill amount of \$390 which means that the maximum amount of a bond is \$585. (*Currently Council has adopted an amount of \$550*); and
- approving of bonds being recognised in Council's Annual Financial Reports rather than being held in a separate bank account.

Although there are strictly speaking currently no mandatory retail provisions for the water and sewerage services that Roxby Water delivers, Council has adapted its operations with a mixture of SA Water billing procedures and provisions that align where applicable with our electricity retailing operations.

Accordingly Council welcomes the introduction of a Water Retail Code for Council's Roxby Water operations as it will potentially lead best practice and continue to demonstrate our ethical behaviour to our customers. However it is essential that it is adapted to meet local circumstances or it has the potential to become a local hindrance.

#### 7.1.2. Local Factors

Since its inception and based on local experience Council has adapted its operations and refined the definition of customer "the" property owner". Where water and sewer are supplied to a community title arrangement then the customer becomes the Community Title Corporation. Council does not and has no intention of providing water services to individual tenants.

There are number of legislative and practical considerations involved:

- this arrangement is consistent with local government generally and SA Water's practice which Council endeavours to follow. [Section 4.2](#);
- in a rental situation we understand that there is no power for the landlord to on charge for sewerage services, although water may be on charged through individual tenancy arrangements;
- from local experience debt recovery from tenants for electricity supply is notoriously difficult. This is not through any customer difficulties in paying accounts through legitimate hardship reasons (Roxby Downs has very high taxable incomes) but through just a plain unwillingness

to pay on time. Roxby has a high turnover of residents and endeavouring to chase a customer for default payments is extremely difficult especially when the tenant leaves. Most of our issues relate to owner/occupiers rather than tenants or businesses.

- invariably when a property is sold any outstanding debt is recovered along with municipal rates through payments through the normal Conveyancing process. Refer to comments under [Section 7.1.3](#); and
- in a Community Title of joint use situation all of the plumbing work including any individual internal meters is the responsibility of the Community Corporation or owner. It is inappropriate for Council to be involved with another property's infrastructure.

### 7.1.3. Legislative Power for Debt Recovery

As indicated under [Section 7.1.2](#) for the majority of occasions Council is ultimately able to recover water and sewerage debts from property owners through the property conveying system. When application is made for a section 7 certificate under the *Land and Business (Sale and Conveyancing) Act 1994* Council is required under 187 of the Local Government Act 1999 to provide a certificate of liabilities as to the applicable rates and charges owed in relation to the property. This includes outstanding rates as well as any outstanding water and sewerage charges.

In Roxby Downs, water and sewerage charges are adopted under the provisions of the Indenture but conveyancers have ensured that these charges are adjusted at property settlement and then paid to Council. Further, pursuant to section 144(2) of the LG Act any amount recoverable by Council under the Indenture for the provision of water/sewerage services that relates to rateable land may be recovered as if it were a rate declared on the relevant property.

Legislative power for debt recovery this is obtained in reliance upon the following:

- Section 177 of the Local Government 1999 which specifies that outstanding rates remain a charge on the property.;
- Water Industry Act 2012. Schedule 2—Related amendments, repeals and transitional provisions relating to Part 8 - Amendment of South Australian Water Corporation Act 1994 as indicated 18C specifies that outstanding water and sewerage will, until payment, be and remain a first charge on the land in relation to which the relevant services have been provided.

Both pieces of legislation also provide an opportunity in certain circumstances to sell land for non payment of rates which may be applicable.

In addition under the Indenture, ([Refer Section 4](#)) provisions in relation to SA Water are referenced in the Indenture as indicated and underlined in the following clause to the schedule of the Indenture.

*13(24) All of the potable water supply and sewerage facilities constructed within the township or for township purposes are to be constructed and maintained to standards normally adopted by the Engineering and Water Supply Department and the quality of the water supplied for township purposes shall be to standards reasonably acceptable to the South Australian Health Commission.*

### 7.1.4. Interest on Late Payments

Pursuant to section 181 of the LG Act, Councils have legislative power to levy fines and interest where a rate instalment is not paid by the due date. If any rates are not paid on or before the date on which they become due, they will be regarded as being in arrears, and

- a fine of 2 per cent of the amount of the payment due will be added to the arrears. and
- upon the expiration of each month from that day, interest of the “prescribed percentage” of the total amount in arrears (including the amount of any previous unpaid fine and interest) will be added to the debt. For the 2011/12 financial year this prescribed rate was **0.7708%** per month and is based on the following calculation

(Cash advance debenture rate for the financial year +3%)/12)

When a Council receives a payment in respect of overdue rates, the LG Act requires the money to be applied the money to be applied as follows:

- First to satisfy any costs awarded in connection with court proceedings;
- Second to satisfy any interest costs;
- Third in payment of any fines imposed;
- Fourth in payment of rates, in chronological order (starting with the oldest account first).

For Local Government generally who levy water and sewerage charges as a “Prescribed Service” pursuant to section 155 of the Act this practice is supported

Like other utility authorities, Council incurs administrative expenses in preparing water accounts as well as loss of revenue associated in terms of trade, in this case approximately four months from the initial provision of the service.

As such Council is unable to apply such a cost and only able to levy a late payment fee per account on a non discriminatory basis on the foundation that all customers are treated equally and that additional administrative costs are incurred. This approach does not however relate to the size of the customer’s account.

This is clearly inequitable and based on experience many customers regularly default at obvious detriment to those that pay on time.

Councils is of the strong view that this anomaly should be addressed. It will greatly assist in debt control and rewards responsible behavior and Council requests that the Commission to review this aspect and if it is of the view that legislative support of this practice is not currently available then request that this be authorised as a condition of any Water Licence issued to Council by the Commission.

## **7.2. Retail Code Comments**

### **7.2.1. Overview**

As a general comment, Council does not support the introduction of a Retail Water Code for Local Government generally. It is clearly an additional burden on Local Government for little / no benefit. As previously outlined, there are ample other legislative controls in place that are more appropriate.

In Roxby Water’s case however, Council sees merit in its application on the proviso that it specifically caters for Council’s situation and is not an industry wide document which fails to address local circumstances.

### **7.2.2. Customer Service Charter**

Most of the issues likely to be covered in a Customer Charter are very well covered by various sections of the Local Government Act which also provides the added benefit of Council policies/decisions/dispute resolution etc falling under the ambit of the SA Ombudsman and the Ombudsman’s Act

The LG Act is prescriptive in most aspects of operations with section 270 of the Act providing for complaints handling and grievance procedures and a review of Council decisions process. Singling out one specific service as being of higher in importance is of dubious relevance. That said, it is acknowledged that the review procedures under section 270 do not apply in respect of certain matters where there are other legislative appeal and/or review mechanisms that apply to the matter.

Proposals for a detailed industry based customer service charter for a large single purpose monopoly retailer may be justified but not are of dubious benefit for local government generally. This is also the case In Roxby Downs, although given that Council has responsibilities for the delivery of electricity then Council has no objections for an approach that is consistently applied across both services so long as it recognises local circumstances.

### 7.2.3. Specific Comments

In this regard Council provides the following specific comments in relation to the Commission's Draft Water Retail Code. Please note that Council currently complies operationally with many of the proposed requirements that whilst every endeavour has been taken to identify the salient points at this stage not every specific clause has been able to be gone through with a fine tooth comb. Council welcomes further dialogue with the Commissions with respect to this aspect.

#### 1 PRELIMINARY

##### 1.1 Title authority and commencement

Include reference to Roxby Downs (Indenture Ratification) Act 1982. Commencement date to be by negotiation

##### 1.3 Application

Specific reference to Roxby Council

##### 1.8 Definitions

Customer definition to be altered. Redefine as the owner of the property or Community Title Corporation and encompass all customers with no distinction between residential, business and non residential.

Non residential customer definition to be removed

Price Determination definition to be removed

Residential customer definition to be removed

Retailer definition to specify Roxby Council

SA Water definition to be removed

#### 2 CUSTOMER CHARTER

Council has no objections to a Customer Charter that is consistently applied across both of Council's utility operations so long as it recognises local circumstances and is determined by Council to be consistent with our Local Government responsibilities.

#### 8 PROVISION OF RETAIL SERVICES

##### 8.1 Obligation to Supply a retail service

Cancels obligation should extend to the owner of the property. Provisions to supply Occupier should be at Council's discretion. Refer [Section 7.1.2](#)

##### 8.2 Form of applications for provision of a retail service

Council currently uses and proposes to continue to use the normal change of ownership notification process which is legislatively required under the Local Government Act and this should be noted in the relevant section. The section can be retained for those rare occasions where Council elects at its discretion to deal with the occupier. Refer [Section 7.1.2](#)

### 8.3 Timeframes for commencement of a retail service provision

Section not needed or if retained needs to be dramatically modified. Council currently uses the date of a property settlement or the date when at the request of the owner to actually connect or have a new supply connected.

## 12 BILLING

### 12.5 What is covered in a bill

Council only provides a service to the owner. In a Community Title or joint meter situation Accordingly 12.5.2 should be removed

### 12.8 Particulars on each bill

Council reads water and electricity meters quarterly but the actual date varies and it is not possible to rectify this. 12.8.1(b) should be removed

If this means that a free call number 1300 is required then this will mean potential major cost and is unworkable locally. Council already has an afterhours emergency number for all of Councils operations (municipal, water and electricity). It is well understood by the community and operates effectively. Council's current electricity licence arrangements do not require such an arrangement. Request that 12.8.1(j) be deleted.

### 12.8 Average daily usage

Council can provide the required data but it will be impracticable to benchmark one customer against another. 12.9.1(b) to be removed

### 12.15 Shared Meters

For the reasons as articulated under [Section 7.1.2](#) this section should be deleted

## 16 HARDSHIP POLICY

Section 182 of the LG Act provides opportunity for the postponement or remission of rates. This is relevant where section 155 of the LG Act is relied upon to levy water charges. Council's obligations under its current electricity licence only require Council to advise the customer of the location where relevant financial counselling services are available. Council is of the view that these provisions are sufficient.

From local experience it is extremely rare (perhaps 1-2 times in the past 13 years) that this aspect has ever been requested in relation to electricity. On each occasion no formal request was forthcoming.

The instance of Council installing water restriction devices is also extremely rare and only instituted as a last resort. Inclusion of fees for the charging of interest for late payments will also reduce the likelihood of this being required.

This proviso should be dramatically reduced / eliminated.

## 17 PAYMENT

### 17.1 Minimum time for payment of a bill

As indicated under [section 7.1.4](#) Council requests the ability to charge interest on late payments. Under 17.1.3 provision is made for this to occur for non residential customers. In reality locally this class of customer is not the issue with late payments, residential

customers are more likely to default. It is therefore requested that this provision apply to all customers

#### OTHER

It is noted that some of the proposed provisions relating to such things as Force Majeure, Appointment of Operator and other aspects may need to have a detailed legislative oversight lest they be deemed to conflict with the provisions of the Indenture.

## 8 LICENSING

In addition to the comments already made, as a general comment, there seems to be no general acceptance by Local Government of the need for an ESCOSA licence for the majority of Council wastewater schemes (due to adequate protections under existing Public Health, Environment and Local Government statutes).

However, Council has no issue with respect to licensing Council's operation so long as it is consistent with the requirements of the Indenture. As demonstrated there are a large number of local constraints and legislative responsibilities which severely impact the scope of the Commission's involvement.

At a recent meeting with Officers of the Commission it was indicated that whilst electricity retailing obligations generally are proposed to be transferred to a National Electricity Law Framework but that the Commission may still be involved with the issue of licenses for some "off grid" operations.

As you are aware this situation applies to Roxby Downs where pursuant to the provisions of the Act and Indenture, BHP Billiton is required to supply electricity to Council in somewhat unique circumstances where the Council then distributes and retails but at no profit. This is undertaken via BHP Billiton's private transmission lines connected to the National Grid at Port Augusta. Regulation by the Commission is undertaken by the Council and BHP Billiton through separate retail and distribution licenses.

In Council's view, the introduction of a licensing regimes for water and sewerage operations by the Commission raises the important question of whether it is desirable to fragment licensee responsibilities, given that the Commission currently has jurisdiction over Council's operations which will expand through the proposed Economic Regulation of the SA Water Industry.

The provisions contained within the Indenture are complex. Indeed legally the Indenture can if in conflict override any other piece of legislation. For a small entity such as Council it is clearly preferable that the regulating authority have a good understanding of our operations in the context of our broader responsibilities. Regulatory reporting is time consuming and costly. Dealing with multiple authorities is not efficient or effective for either party.

Accordingly on 23 August 2012 Council wrote to the Commission requesting that the Commission's responsibilities in relation to the licensing of electricity for Roxby Downs be retained. Where practicable it is considered that relevant provisions in relation to license conditions should be consistent between all services.

## 9 SUMMARY

In summary there are many complex legislative controls and operational issues which render many aspects associated with regulating Council's water and sewerage services which make proposals for the Commission to monitoring problematical at best and arguably ultra vires.

The need for tailor made Retail Licence conditions that suit Council operations is essential as is the desirability of ensuring the Commissions current role in relation to regulating Councils Electricity operations remains and can complement the Commissions new role under the Water Industry Act.

A productive partnership approach will also make it possible that a 1 January 2013 start date is achievable.

## 10 FURTHER INFORMATION

Council suggests that given the complex nature of the operations of Council and the unique circumstances brought about by Councils unique role, function, operating environment and legislative controls that detailed discussion be undertaken with respect to the Commissions approach at the earliest opportunity.

For further information or clarification please contact the Roxby Council Administrator Bill Boehm at the Council Office Richardson Place Roxby Downs SA 5725. Phone 08 8671 0010 or email [bill.boehm@roxbycouncil.com.au](mailto:bill.boehm@roxbycouncil.com.au).

**Bill Boehm**  
**Administrator**

## 11 APPENDICES

The following documents are attached

1. RCP 55 Business Units Financial Accounting Policy.
2. RCP 93 Budget Management Policy,
3. Interim Report – Utility Pricing Principles
4. Financial Overview of Council's Operation
5. Roxby Downs Council Water Pricing Discussion Paper 2000
6. Roxby Downs Council Sewerage Pricing Discussion Paper 2000
7. RCP – 58A Water & Sewerage Infrastructure Contributions
8. Roxby Water Customer Flyer – January 2012
9. SA Water 2002-03 Community Service Obligation Calculation

# APPENDICES

<b>POLICY</b>	 <p><b>roxbycouncil</b> young vibrant community</p>	<b>RCP – 55</b> (Previous I14)
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<b>Title</b>	<b>BUSINESS UNITS FINANCIAL ACCOUNTING POLICY</b>
<b>DATE</b>	<b>25 June 2012</b>

**Administration**

Responsible Department/Officer	Finance
Date of Adoption	16 Sep 2005
Date Prepared	
Council Review Dates	25 June 2012
Audit Committee Review Dates	12 June 2012
Related Procedures/Policies	
Reference to Strategic Plan	

**1. INTRODUCTION**

Like all Local Government Authorities the Council is required to prepare budgets and complete Financial Statements in accordance with Local Government Act 1999 and then as an entire Council entity encompassing all of Council's operations.

However, the provisions of the Roxby Downs (Indenture Ratification) Act 1982 (*"the Act"*), effectively create three (3) separate entities which for funding purposes have to be accounted for on a separate basis. This is because:

- Municipal Operations are "deficit funded" by the State Government and BHP Billiton;
- Roxby Power (Electricity Supply) is not permitted to make a profit (commercial dividend) but can return any financial surplus back into financial reserves for future asset replacement; and
- Roxby Water (Water & Sewerage Services) is permitted to return a financial dividend back to the Municipal Operations.

Council's policy in relation to the Financial Accounting of these separate business units is therefore prepared to formalise arrangements that have previously been applied over a number of years.

It also recognises that the Act is silent on the actual method required to be used to calculate the actual deficit for Council's Municipal Operation.

**2. GENERAL**

For the purposes of determining the costs of operating each business unit, the following general principles will apply for all costs:

- Expenditure and Income is calculated on an "accrual basis" but in "cash terms", ie with the exception of depreciation and loss/ gain on disposal of assets, all operational and capital expenditure and income is included.  
*Note that the matter of inclusion of depreciation is under review and may result in this principle being altered as a more accurate analysis and calculation will highlight future asset replacement requirements and corresponding financial strategy.*
- Administrative costs incurred by the Municipal Operation associated with Roxby Power and Roxby Water is to be apportioned on a full cost attribution basis to each relevant business unit by way of an internal overhead apportionment that "credits" the Municipal Operation with income.
- Amounts transferred to and from financial reserves are included in this calculation.

**3. MUNICIPAL OPERATION**

- Only expenses and income associated with the Municipal Operation are included.
- Following confirmation of Audit, the municipal deficit is apportioned between the State Government and BHP Billiton pursuant to clause 29(3(b) of Schedule 1 of the Act.

**4. ROXBY POWER**

- Only expenses and income associated with the Electricity Operations are included.
- Under clause 18(17) of Schedule 1 of the Act, Roxby Power is not permitted to return a Commercial Dividend to the Municipal Operation with any surplus from electricity operations being transferred to the Asset Maintenance Reserve for the future replacement of electricity assets.

**5. ROXBY WATER**

- Only expenses and income associated with the Water and Sewerage Operations are included.
- Under clause 13(22) of Schedule 1 of the Act, Roxby Water is permitted to return a Commercial Dividend to the Municipal Operation but this shall be only carried out when the amount of water & sewerage surplus is deemed prudent by the Council to do so. If no commercial dividend is declared then any surplus from operations shall be transferred to the Asset Maintenance Reserve for the future replacement of water and sewerage assets.

**6. REVIEW & EVALUATION**

The effectiveness of this policy will be reviewed and evaluated from time to time and changes made at the discretion of the Administrator.

<b>POLICY</b>	 <p><b>roxby</b>council young vibrant community</p>	<b>RCP – 93</b>
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<b>TITLE</b>	<b>BUDGET MANAGEMENT POLICY</b>
<b>DATE</b>	<b>25 June 2012</b>

**Administration**

Responsible Department/Officer	Finance
Date of Adoption	25 June 2012
Date Prepared	1 June 2012
Council Review Dates	
Audit Committee Review Dates	12 June 2012
Related Procedures/Policies	RCP – 55 Business Units Financial Accounting RCP – 92 Loans Policy
Reference to Strategic Plan	L1.5

**1. INTRODUCTION**

Roxby Council is committed to sound budget management practices and transparency in its financial affairs through the development of its annual budget and the review process available under the Local Government Act 1999.

Council has additional budget requirements to other South Australian Councils in that its budget and overall operation is affected by the provisions of the Roxby Downs (Indenture Ratification Act 1982) (*Indenture*). Interalia Council must:

- budget for the electrical and water and sewerage services it provides in accordance with the provisions of the *Indenture* as separate business units
- seek approval of its budget by the State Government and BHP Billiton where there is proposed to be a shortfall in funding of Council's municipal operation
- seek the concurrence of BHP Billiton for any proposed increase in rates that is proposed to be levied
- unless otherwise approved by the Minister of Local Government ensure that its budget is adopted and rates are declared by 31 August of each year.

The provisions of the *Indenture* do not provide timeframes that are required to be followed by the State Government and BHP Billiton when approving the budget, although the fact that Council must have an approved budget by the 31 August, as per the Local Government Act, would make this an appropriate deadline. Historically, approval of Council's municipal budget deficit has rarely been approved prior to 31 August with the 2011/12 budget only being verbally approved in May 2012 and then at a reduction of the budget deficit from the proposed \$1.2m to \$0.5m. BHP Billiton has however, always advised Council of its agreement to the proposed rate increase prior to this date.

Notwithstanding previous funding decisions the provisions of the *Indenture* are clear in that ultimate responsibility for the overall financial viability of Councils operations will fall not just to Council but also to the State Government and BHP Billiton.

**2. PURPOSE**

This policy provides a framework and guidelines for the development and ongoing administration of Council's budget, which are consistent with Council's legislative requirements and take into consideration the vagaries of State Government and BHP Billiton funding under the *Indenture*.

### 3. BUDGET DEVELOPMENT PRINCIPLES

In the development of Council's budget the following principles will be adhered to:

- 3.1. The budget will address objectives identified in the Council's Strategic Plan;
- 3.2. Consultation will be held with ratepayers and relevant parties;
- 3.3. Due consideration will be given to the financial sustainability of Council and the achievement of an operating surplus;
- 3.4. Budgets will be well researched, realistic and prudent and will not be submitted to the State Government and BHP Billiton for approval until all of the legislative requirements have been completed
- 3.5. Performance measures will be identified to monitor budgets;
- 3.6. External loan borrowings and asset sales will not be used to fund recurrent services.

### 4. BUDGET PROCESS

The following budget processes are to be followed.

#### 4.1. Annual Business Plan

Council has recognised the unique circumstances that apply with respect to Council's operations under the *Indenture* in that both BHP Billiton and the State Government must approve any deficit budget.

The Local Government Act 1999 requires an Annual Business Plan to be prepared and consulted upon prior to Council adopting the Plan. As a result, Council will prepare the Draft Annual Business Plan to highlight to the community its strategic direction and seek community input into Council's Annual Business Plan. This will provide opportunity to include changes prior to submitting a budget to BHP Billiton and the State Government for approval.

At this stage, only indicative financial requirements pursuant to Section 123(2)(c) of the *Local Government Act 1999* are able to be provided with Council's absolute commitment to these initiatives being dependant on the final budget agreed by BHP Billiton and the State Government. The Draft Annual Business Plan will

- a Address objectives, activities and performance measures of Council;
- b Assess financial requirements;
- c Address rating policy and structures; and
- d Include consideration of the approved Long Term Financial Plan.

The Annual Business Plan will be presented to the Audit Committee and to the local community for comment in time for adoption of the Plan with the Budget in June each year.

#### 4.2. Budget Development

The Financial Accountant will prepare a timetable of budget and other financial deadlines for the approval of the Administrator, by the end of August each year. This timetable will meet legislative compliance and incorporate final adoption of the budget.

The budget process will include:

- a Statutory reports required under the Local Government Act and Regulations;
- b Will be aligned with the key planning documents of Council such as the Strategic Plan, Long Term Financial Plan and Asset Management Plans.
- c Will identify all the activities council wishes to undertake and how performance will be measured;
- d Participation in the setting of budgets by each Business Unit.
- e The budget will be tabled to the Audit Committee for comment.

In accordance with RCP – 55 Business Units Financial Accounting Policy and as per historical practice the Budget will be prepared with overall results determined as follows:

Expenditure Item	Funding Source
Operating	Revenue
Maintenance	Revenue
Depreciation	Revenue – where possible
Capital Replacement	Reserves generally except for small items (funded from revenue) and for assets that are beyond their useful life and that are urgently required which are to be funded from revenue.
Capital New	Revenue (small items) or Loans (large new works)
Capital Other	Some approved capital works in one budget year may be held over and funded from Reserves by way of a reserve transfer at the end of the financial years

#### 4.3. Budget Deficit Calculation

Pursuant to Clause 29 of the *Indenture* Council is required to seek the approval of the State Government and BHP Billiton (Joint Venturers) to Councils annual budget. To meet the requirements of the *Indenture*, both in the existing and 2011 amendment if it comes into force, determination of Council's Municipal Deficit shall be undertaken in accordance with the following methodology

Council has sought legal advice regarding the current and proposed 2011 amendments to the *Indenture*. In relation to the calculation of Council's Municipal Deficit a different methodology will apply, the differences being defined in the *Indenture* as follows

Existing Indenture	<i>"shown by the statement and balance sheet which the municipality is required by section 296 of the Local Government Act 1934"</i>  as described under RCP – 55 Business Units Financial Accounting Policy.
Amended Indenture	<i>"required by section 127 of the Local Government Act 1999"</i>  as described by the Uniform Presentation of Finances Statement for Council's Municipal Operation as developed in accordance with RCP – 55 Business Units Financial Accounting Policy.

#### 4.4. Budget Approval and Municipal Deficit Funding

Council's budget includes a range of operational matters as well as planned infrastructure replacement and other critical projects. There are a number of risks to Council including

- Without the final approval of the budget Council is unable to commence a number of infrastructure projects and runs the risk that by the time the approval is received it is too late in the year to do anything about proceeding with the project.
- It is evident that with such a practice Council's infrastructure will deteriorate and the financial sustainability of Council is adversely affected in the short term.
- Legislatively Council needs to adopt its budget prior to 31 August and whilst it can seek approval of the Minister for Local Government for an extension of time the grounds for doing so relate to the Council being in administrative difficulty and any deferral places the Council at a disadvantage in the collection of rates.

Council has therefore resolved that in these circumstances that the Budget as submitted should be adopted prior to 31 August.

Where the Council's submitted budget deficit has yet to be approved or the amount that is approved has been reduced, Council can either continue as is and run-down infrastructure and services or utilise its existing cash reserves (which are committed in the Long Term Financial Plan) to covering the capital projects in the budget that are affected by adjustments from the State Government and BHP Billiton. This could only be a short term strategy because it is likely these reserves would soon be exhausted.

Whilst this is not a preferred strategy and will result in long-term consequences it is preferable to running down Council services and infrastructure.

#### 4.5. Budget Review

Council recognises that the original budgets are based on the best information available at the time, however situations change over time and a formal review process is necessary throughout the financial year.

- a As at the end of September, December and March the budget to actual will be reviewed and any variations submitted to the Administrator for approval;
- b The first review (September) will take account of the financial outcome from the previous financial year and where appropriate make adjustment;
- c These quarterly reviews will:
  - Compare actual expenditure and income to the last approved budget
  - Include preparation of statutory reports;
  - Summarise trend of budget and identify major influences which effect changes in the budget;
  - Provide updates on the accepted performance indicators;
  - Reconcile a revised forecast for the financial year;
  - Present all reports to the Administrator and recommend any changes to the budget.

### 5. RELEVANT LEGISLATION

Section 123 of the Local Government Act 1999.  
Part 2 of the Local Government (Financial Management) Regulations 1999.  
Roxby Downs (Indenture Ratification Act 1982



## INTERIM REPORT TO ROXBY DOWNS COUNCIL

February 2009

### INTRODUCTION

Roxby Downs Council has engaged the services of Corpor8solutions to assist it in developing a responsible approach to a potential development agreement between BHP Billiton and Council. This agreement is related to appropriate service charge structures for the provision of services and infrastructure to meet the requirements of a proposed Hiltaba Village and for the urban development of Council owned land on the west side of Olympic Way, in accordance with the proposed draft Roxby Downs Masterplan.

Specifically this interim report focuses on disposal of Hiltaba Village Wastewater where it is proposed that BHP Billiton develop, own and operate a Hiltaba Village sewerage pumping station and rising main from Hiltaba Village to the Roxby Downs Wastewater Treatment Plant. Under this proposal, the Plant would be upgraded by BHP Billiton to accommodate and treat wastewater flows from the expanded town and Hiltaba Village. The treated wastewater is then available for use to irrigate Roxby Downs sporting and recreation facilities, open space and streetscaping.

BHP Billiton have proposed a charging regime whereby BHP Billiton would contribute to the operational and sustainable development costs associated with the Roxby Downs wastewater Treatment and disposal facilities and its infrastructure on a proportional basis of the wastewater from Hiltaba Village relative to the total wastewater received at the Roxby Downs treatment facility.

It is recognised that at this time the future costs and operating and capital costs of any expanded wastewater treatment and disposal facilities are not known, and nor likely to be for some time. However what is sought is a methodology upon which an agreement can be predicated.

### OVERVIEW

The powers and role of the Administrator of Roxby Council is defined under the Roxby Downs (Indenture Ratification) Act 1982 (*Indenture*) and through it to certain aspects of the Local Government Act 1999.

With specific reference to the powers to operate the utilities of power, water and sewerage provisions are specified in the Indenture; (Clause 13 for Water and Clause 18 for Power.) These override any provisions in the Local Government Act. Unless specifically provided for in the Indenture and where provisions are silent, overall price setting is therefore left up to the Administrator's discretion.

Whilst Council is currently licensed with the Essential Services Commission to operate as an electricity distribution and retail authority in terms of electricity charges it sets them independently but in accordance with provisions of the Indenture where Council must offer tariffs within 10% of Adelaide prices. This effectively means that tariff structure mirrors that of AGL.

With respect to water and sewerage the Indenture provides a loose reference to EWS (now SA Water) for the operating standards for water and sewerage. The Council currently operates its water charging under an access unit charging system based on that adopted by the Hunter River Water Authority whilst for Sewerage Council uses the same system that applies to Local Government in South Australia for Community Waster Management Schemes. Both systems were adopted as a result of previous policy provisions.

## INTERIM REPORT

In the light of its governance requirements under the Indenture and Local Government Act and in order to adequately establish a transparent and sustainable pricing structure for Roxby Council's water and power utilities, Council has undertaken to do the following:

1. Research 'Best Practice' related to pricing local government water and power utilities and on the basis of those findings
2. Construct a set of principles related to the costing of the above mentioned services.
3. Provide a rationale for determining asset values.
4. Provide a Methodology to enable scrutiny and justification of its valuations and pricing.
5. Review and identify the key issues related to revenue requirements and define and document the elements involved in determining acceptable rates of return.
6. Review Roxby's rates of return based upon, or derived from the above principles and methodologies.

### 1. Research into 'Best Practice'

Research into Best Practice related to pricing local government water and power utilities identified the work undertaken by Sinclair Knight Menz (SKM) 'Expenditure Forecast Review for the Victorian Regional Urban Water Businesses' March 2008, for the Victorian Essential Services Commission (established under the Essential Services Commission Act 2001(**ESC Act**)).

This research also identified a set of related principles and a methodology which would assist the determination of a pricing structure. The methodology was consistent with the principles and could be used to provide an appropriate rate of return for Roxby Downs Council (i.e. fair and sustainable).

### 2. The Principles

The Principles are derived from the Water Industry Regulatory Order 2003 under the Section 4D (1) (a) of the Victorian WATER INDUSTRY ACT 1994 and involve the following:

#### The Purpose

The purpose of this **Order** is to provide a framework for economic regulation by the **Commission** for services provided by the (in this case) **regulated water industry**. **The regulatory approach includes the** approval of all of the prices which a **regulated entity** may charge for **prescribed services**, or the manner in which such prices are to be calculated or otherwise determined.

The **Commission** must give approval if it is satisfied that the prices which the **regulated entity** may charge for **prescribed services** or the manner in which they are to be calculated or otherwise determined (as set out in the regulated entity's **Water Plan**). It requires that they (a) were developed in accordance with the **Procedural Requirements**; and (b) comply with the relevant **Regulatory Principles**.

#### Procedural Requirements and Regulatory Principles

In order to be satisfied that prices, or the manner in which such prices are to be calculated or otherwise determined, have been developed in accordance with the **Procedural Requirements**, as required by this **Order**, the Commission must be satisfied that the regulated entity has observed the procedural requirements as set out in the **Statement of Obligations**.

#### Regulatory Principles

In order to be satisfied that prices, or the manner in which such prices are to be calculated or otherwise determined, the Commission must be satisfied that the regulated entity has complied with the following **Regulatory Principles**:

- (a) the prices contained in the **Water Plan** as those which the **regulated entity** proposes it be permitted to charge for **prescribed services** over the term of the **Water Plan**, or the manner in

which the **Water Plan** proposes that such prices are to be calculated or otherwise determined, must be such as to:

- i. provide for a sustainable revenue stream to the **regulated entity** that nonetheless does not reflect monopoly rents and or inefficient expenditure by the **regulated entity**;
  - ii. allow the **regulated entity** to recover its operational, maintenance and administrative costs;
  - iii. allow the **regulated entity** to recover its expenditure on renewing and rehabilitating existing assets;
  - iv. allow the **regulated entity** to recover:
    - a. a rate of return on assets as at 1 July 2004 that are valued in a manner determined by, or at an amount otherwise specified by, the **Minister** at any time before 1 July 2004;
    - b. all costs associated with existing debt incurred to finance expenditure prior to 1 July 2006, in a manner determined by the Minister at any time before 1 July 2006;
  - v. allow the **regulated entity** to recover a rate of return on investments made after 1 July 2004 to augment existing assets or construct new assets;
  - vi. provide incentives for the sustainable use of Victoria's water resources by providing appropriate signals to water users about:
    - a. the costs of providing services, including costs associated with future supplies and periods of peak demands and or restricted supply; and
    - b. choices regarding alternative supplies for different purposes;
  - vii. take into account the interests of customers of the **regulated entity**, including low income and vulnerable customers;
  - viii. provide the **regulated entity** with incentives to pursue efficiency improvements and to promote the sustainable use of Victoria's water resources; and
  - ix. enable customers or potential customers of the **regulated entity** to readily understand the prices charged by the **regulated entity** for **prescribed services**, or the manner in which such prices are to be calculated or otherwise determined;
- (b) the expenditure forecasts contained in the **Water Plan** must reflect the efficient delivery of the proposed outcomes contained in the **Water Plan** and take into account a planning horizon that extends beyond the term of the **Water Plan**.

The principles include recognition of the special needs of the **Rural Sector and would suggest that remote rural communities such as Roxby Downs would need similar Regulatory Principles**.

**The Regulation of Service Quality is addressed by specifying standards and conditions of services and supply with which a regulated entity is obliged to comply in connection with the provision by it of declared services:**

- (a) by approving standards and conditions of services and supply which a **regulated entity** has included in its **Water Plan**; or
- (b) by specifying standards and conditions of services and supply in a **Code** issued under section 4F of the Act; or
- (c) by any combination of the means specified in paragraphs (a) and (b).

#### **Monitoring, Performance Reporting and Auditing**

The **Commission** has the function of monitoring and reporting publicly on the performance of the **regulated water industry**.

The **Commission** has the function of carrying out audits in relation to:

- (a) the compliance of **regulated entities** with the standards and conditions of service and supply specified by the **Commission** in any Code or set out in their **Water Plans**, and the systems and processes established by the **regulated entity** to ensure such compliance;
- (b) the reliability and quality of information reported by **regulated entities** to the **Commission** and the conformity of that information with any specification issued by the **Commission**; and
- (c) the compliance of **regulated entities** with obligations imposed in any **Statement of Obligations** issued to them in respect of the management of their assets.

In the case of any such audits:

- (d) the Commission may decide the scope and frequency of such audits provided that such audits are not conducted more frequently than once in any given **financial year**;
- (e) conducted pursuant to paragraph (c), the **Commission** must include in that audit any matters requested by the **Minister**.

#### **Publication of audit results**

The **Commission** must publicly report on the results of all audits conducted (under clause 17 or 18).

#### **Disputes between regulated entities**

In such circumstances as the **Commission** determines, the **Commission** has the function of facilitating the resolution of a dispute in relation to prices and standards and conditions of service and supply provided for in an agreement between two **regulated entities** to supply **storage operator and bulk water services, bulk sewerage services and bulk recycled water services**. The **Commission** may carry out this function by requiring mediation or arbitration or by any other means the **Commission** considers appropriate.

This exercise was to identify a relevant example of Best Practice in the pricing of utility services and review options for adaptation to Roxby Downs Council's operations. In the selected example the Council's water and electricity units would be regarded as the regulated entities and the role of the Commission could be the South Australian Essential Services Commission and its methodology adopted, as they would be reasonably similar (needs confirmation – yet to be done).

The principles and regulatory issues have been outlined above. The rationale for determining asset values; the methodology to enable scrutiny and justification of its valuations and pricing and to determine the revenue requirements and to define and document acceptable rates of return are covered in the following documents:

#### **3. Rationale for determining Asset Values**

Re the provision of a **rationale for determining asset values**; refer to '**ADVICE TO THE MINISTER FOR WATER; Regulatory asset values for the Victorian water businesses**' Essential Services Commission; Regulatory Asset Values; 2; March 2005

#### **4. Provision of a Methodology**

Regarding the provision of a **Methodology** to enable scrutiny and justification of its **valuations and pricing**; refer to SKM Report 'Expenditure Forecast Review for the Victorian Regional Urban Water Businesses march 2008'

#### **5. Review Issues related to revenue requirements**

Regarding the **review issues related to revenue requirements** and define and document **acceptable rates of return**; refer to Essential Services Commission 2008, *2008 Water Price Review Draft Decision Volume II: Gippsland Water*, March Sections 5-9. (Provides information related to determining acceptable returns for these businesses (**regulated entities**) relative to existing assets and investments.

#### **WORK IN PROGRESS**

It is proposed to review the suitability of the model and to Review Roxby's rates of return in the light of those prices that were approved for a rural entity namely Gippsland Water (by the ESC). This review will be based upon, or derived from the above principles and methodologies. This work is still in progress.

In a South Australian context this research will be undertaken with the Essential Services Commission. Council is currently licensed to operate as an electricity distribution and retail authority and the Commission has jurisdiction in relation to the water industry in South Australia so its methodology is potentially of relevance.

Much of the groundwork covering the underlying principles and methodology has been done and evaluated. Once the relevance of the principles and methodology have been tested in the context of Roxby Downs Council and the results critically reviewed, a final Discussion Paper outlining the rationale and **recommended protocols for service charge determinations and service standards** will be prepared for review by the key stake holders generally and in the context of the any agreement in relation to Hiltaba Camp.

**The rationale behind this approach is that the Australian and State and Territory Governments are moving towards water and power Utility Service Providers requiring approvals for their service charges. It is proposed that these approvals will be under the guidance of their respective Essential Services Commissions and designed to ensure that all charges are subject to fair and transparent processes.**

**Wayne Coonan  
Principal Director**

**Coonan- Hird Corpor8solution**

**7/2/2009**

(All figures \$000's)	COUNCIL	
	Budget 2011/12	Proj 2011/12
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
<b>Income</b>		
Rates	3,652	3,747
Statutory Charges	55	159
User Charges	9,164	9,419
Grants subsidies and contributions	223	375
Municipal Deficit Funding	1,200	600
Investment Income	120	244
Reimbursements	115	65
Other Revenues	99	97
Share of loss - joint ventures & associates	0	0
<b>Total Revenue</b>	<b>14,628</b>	<b>14,707</b>
<b>Expenses</b>		
Employee Costs	2,034	1,910
Materials contracts & other expenses	11,002	9,870
Finance Costs	22	19
Depreciation amortisation & impairment	2,309	2,610
Share of profit - joint ventures & associates	0	0
<b>Total Expenses</b>	<b>15,368</b>	<b>14,410</b>
<b>Total Operating Surplus / (Deficit) before Capital Amounts</b>	<b>(740)</b>	<b>297</b>
Municipal Distribution	0	0
<b>TOTAL OPERATING SURPLUS / (DEFICIT) BEFORE CAPITAL AMOUNTS AFTER MUNICIPAL DISTRIBUTION</b>	<b>(740)</b>	<b>297</b>
Net gain (loss) on disposal or revaluation of assets	15	15
Amounts specifically for new or upgraded assets	0	0
Physical Resources Received Free of Charge	0	0
Changes in Revaluation surplus	0	0
<b>Total Comprehensive Income</b>	<b>(725)</b>	<b>312</b>

(All figures \$000's)	COUNCIL	
	Budget 2011/12	Proj 2011/12
<b>BALANCE SHEET</b>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash & Cash Equivalents	4,837	6,681
Trade & Other Receivables	3,401	1,683
Other Financial Assets	0	0
Inventories	12	12
	<u>8,250</u>	<u>8,376</u>
Non-Current Assets held for sale	0	0
<b>Total Current Assets</b>	<u>8,250</u>	<u>8,376</u>
<b>Non-Current Assets</b>		
Financial Assets	0	0
Equity Accounted investments in Council businesses	0	0
Investment Property	0	0
Infrastructure, property, plant & equipment	106,380	107,291
<b>Total Non-Current Assets</b>	<u>106,380</u>	<u>107,291</u>
<b>Total Assets</b>	<u>114,631</u>	<u>115,667</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trades & other payables	2,309	2,309
Borrowings	0	0
Short Term Provisions	83	83
Other Other Current Liabilities	0	0
	<u>2,392</u>	<u>2,392</u>
Liabilities relating to Non Current Assets held for sale	0	0
<b>Total Current Liabilities</b>	<u>2,392</u>	<u>2,392</u>
<b>Non-Current Liabilities</b>		
Trade & Other Payables	33	33
Long Term Borrowings	0	0
Long Term Provisions	34	34
Other Non Current Liabilities	0	0
<b>Total Non-Current Liabilities</b>	<u>67</u>	<u>67</u>
<b>Total Liabilities</b>	<u>2,459</u>	<u>2,459</u>
<b>NET ASSETS</b>	<u>112,172</u>	<u>113,208</u>
<b>EQUITY</b>		
Accumulated Surplus	24,445	25,482
Asset Revaluation Reserve	81,946	81,946
Other Reserves	5,780	5,780
<b>TOTAL EQUITY</b>	<u>112,171</u>	<u>113,208</u>

(All figures \$000's)	COUNCIL	
	Budget 2011/12	Proj 2011/12
<b>STATEMENT OF CHANGES IN EQUITY</b>		
<b>ACCUMULATED SURPLUS</b>		
Balance at end of previous reporting period	25,170	25,170
Net result for Year	(725)	312
Transfer to Reserves	0	0
Transfer from Reserves	0	0
<b>Balance at end of period</b>	<b>24,445</b>	<b>25,482</b>
<b>ASSET REVALUATION RESERVE</b>		
Balance at end of previous reporting period	81,946	81,946
Gain on revaluation of infrastructure, property plant & equipment	0	0
Transfer to accumulated surplus on sale of infrastructure, property, plant & equipment	0	0
<b>Balance at end of period</b>	<b>81,946</b>	<b>81,946</b>
<b>OTHER RESERVES</b>		
Balance at end of previous reporting period	5,780	5,780
Transfers from Accumulated Surplus	0	0
Transfers to Accumulated Surplus	0	0
<b>Balance at end of period</b>	<b>5,780</b>	<b>5,780</b>
<b>TOTAL EQUITY AT END OF REPORTING PERIOD</b>	<b>112,171</b>	<b>113,208</b>
Total of all revenues recognised directly in equity	0	0
Total of all expenses recognised directly in equity	0	0
<b>NET CHANGE IN EQUITY</b>	<b>0</b>	<b>0</b>

(All figures \$000's)	COUNCIL	
	Budget 2011/12	Proj 2011/12
<b>STATEMENT OF CASH FLOWS</b>		
CASH FLOWS FROM OPERATING ACTIVITIES		
<u>Receipts</u>		
Operating receipts	14,508	14,463
Investment receipts	120	244
<u>Payments</u>		
Operating payments to suppliers & employees	(13,037)	(11,781)
Finance payments	(22)	(19)
<b>Net Cash provided by (or used in) Operating Activities</b>	<b>1,569</b>	<b>2,907</b>
CASH FLOWS FROM INVESTING ACTIVITIES		
Grants specifically for new or upgraded assets	0	0
Sale of replaced assets	0	0
Sale of surplus assets	0	0
Sale of investment property	0	0
Net disposal of investment securities	0	0
Sale of real estate developments	0	0
Repayments of loans by community groups	0	0
Distributions received from associated entities	0	0
<u>Payments</u>		
Expenditure on renewal/replacement of assets	(1,697)	(997)
Expenditure on new/upgraded assets	(173)	(366)
Purchase of investment property	0	0
Net purchase on investment securities	0	0
Development of real estate for sale	0	0
Loans made to community groups	0	0
Capital contributed to associated entities	0	0
<b>Net Cash provided (or used in) Investing Activities</b>	<b>(1,870)</b>	<b>(1,364)</b>
CASH FLOWS FROM FINANCING ACTIVITIES		
<u>Receipts</u>		
Proceeds from Borrowings	0	0
Proceeds from Aged Care Facilities	0	0
<u>Payments</u>		
Repayments of Borrowings	0	0
Repayment of Finance Lease Liabilities	0	0
Repayment of Aged Care Facility deposits	0	0
<b>Net Cash provided by (or used in ) Financing Activities</b>	<b>0</b>	<b>0</b>
Net Increase / (Decrease) in cash held	(301)	1,543
Cash & equivalents at beginning of period	5,138	5,138
<b>Cash &amp; equivalents at end of period</b>	<b>4,837</b>	<b>6,681</b>

(All figures \$000's)	COUNCIL	
	Budget 2011/12	Proj 2011/12
<b>FINANCIAL INDICATORS</b>		
<b>Operating Surplus</b> <i>Being the operating surplus (deficit) before capital amounts</i>	(740)	297
<b>Operating Surplus Ratio</b> <i>Being the operating surplus (deficit) as a percentage of general &amp; garbage rates</i>	-20.3%	7.9%
<b>Net Financial Liabilities</b> <i>Being the total liabilities less financial assets (excluding equity accounted investments in Council businesses)</i>	(10,709)	(10,835)
<b>Net Financial Liabilities Ratio</b>	73.2%	73.7%
<b>Interest Cover Ratio</b> <i>Finance Costs less investment income divided by total operating revenue</i>	-0.7%	-1.5%
<b>Asset Sustainability Ratio</b> <i>Capital expenses on renewal/ replacement assets less sale of replaced assets divided by depreciation</i>	73.5%	38.2%
<b>Asset Consumption Ratio</b> <i>Carrying value of depreciable assets divided by total value of depreciable assets</i>	80.0%	80.0%
<b>Roxby Power &amp; Water Commercial Distribution</b> <i>Return on assets as a % of the written downs value of electricity and water &amp; sewerage assets</i>	0	0
<b>Roxby Power</b>	0.0%	0.0%
<b>Roxby Water</b>	3.1%	3.1%
Water	3.5%	3.5%
Sewerage	2.9%	2.9%
<b>Municipal Deficit</b>		
Municipal deficit as a percentage of rate revenue	32.9%	16.0%
Municipal deficit as a percentage of operating expenses	7.8%	4.2%

(All figures \$000's)	COUNCIL	
	Budget 2011/12	Proj 2011/12
<b>UNIFORM PRESENTATION OF FINANCES</b>		
Operating Revenues	14,628	14,707
less Operating Expenses	15,368	14,410
Operating Surplus / (Deficit) before Capital Amounts	(740)	297
<b>less Net Outlays on Existing Assets</b>		
Capital Expenditure on renewal & replacement of existing	1,697	997
less Depreciation	2,309	2,610
less Proceeds from sale of replaced assets	0	0
	(612)	(1,612)
<b>less Net outlays on New and Upgraded Assets</b>		
Capital Expenditure on new or upgraded assets	173	366
less Amounts received specifically for new & upgraded assets	0	0
less Proceeds from sale of surplus assets	0	0
	173	366
<b>Net Lending / (Borrowing) for Financial Year</b>	<b>(301)</b>	<b>1,543</b>



**DISCUSSION PAPER**

**WATER PRICING IN**

**ROXBY DOWNS**

**May 2000**

## 1. INTRODUCTION

This discussion paper examines various factors that effect the provision of potable water to Roxby Downs and applies relevant principles identified for an improved more equitable pricing structure.

## 2. BACKGROUND

Council's role as a water provider authority arises out of appointment as a distribution authority under the provisions of the Roxby Downs Indenture Ratification Act 1982.

Accordingly, although Council performs other municipal functions as well as sewerage and electricity, the provision of water is never the less, independent of normal Council functions. Performance should therefore be viewed independently from other operational areas.

Council currently sets water charges based along similar lines to methods used by SA Water.

### 1999/00 charges were as follows:

Consumption based at 91 cents per kilolitre, subject to the following minimum charges.

Residential	\$123 per block per annum
Residential Units	\$0.00213 rate in the dollar of capital valuation
Commercial & Industrial	\$0.00213 rate in the dollar of capital valuation.

For a quarter billing on each minimum, a fixed charge is calculated on a pro rata basis for the period concerned.

In December 1999, SA Water released a discussion paper titled "Water Pricing in South Australia". In this document, it outlines historically how the current pricing arrangements came about, detailing how through evolution, the dependence on property valuations for setting minimum water allowances has steadily eroded.

Philosophically, the use of property valuation has no relevant role to play in the setting of water prices. This view is strongly emphasized in the SA Water Discussion Paper. The Council of Australian Government in 1994 also endorsed a "strategic" framework for the reform of the water industry.

As a result, the use of property valuations has almost universally been abolished.

## 3. WATER PRICING PRINCIPLES

Several principles have been identified through review, which have identified as relevant considerations. These are outlined as follows with particular emphasis on factors pertinent to Roxby Downs.

### 3.1 Water prices should reflect the relative cost of the service taking into account consumption based and environmental costs.

#### *Consumption Based Costs*

Roxby Downs obtains potable water from WMC Resources as part of its Olympic Dam Cooper Uranium Mine Operation. Water is piped some 200 km from the Great Artesian Basin and then passed through a Reverse Osmosis Desalination Plant.

The costs associated with this process are in the order of \$2.30 per kilolitre. Under the Roxby Downs Indenture Ratification Act this price is pegged. Council currently pays \$0.64 per kilolitre.

However, WMC Resources have historically undercharged Council and have given notice that the price that Council pays, will need to rise to the maximum as specified under the Indenture Act (currently \$1.10 per kilolitre). This would mean a rise of approximately 70%.

There are very little storage costs associated with Council's reticulation distribution system. Additional costs for pumping, chemicals, administration and maintenance are incurred and represent approximately a 40% increase over the purchase price of water. Reticulation Infrastructure is new and has an anticipated long life.

Consumption based costs represent a relative high proportion of the total cost of delivering water to consumers. This is contrary to SA Water's situation.

Further, these costs predominately outride the direct control of Council, who rely totally on costs as set by WMC Resources, as tempered by the Indenture Act.

#### *Environmental Costs*

Beyond the costs incurred by the water provider, there are costs to the environment created by taking water from its source. Failure to take into consideration these costs will give a false impression to water users about the true costs of satisfying these demands.

WMC Resources have significant responsibilities to the environment, one of which is minimizing a decline in the level of the current water source. Besides introducing significant water reuse regimes as part of its operation, significant financial support is being given to pastoralists to cap free flowing bores.

The use of pricing to reflect environmental costs is a legitimate means to practice water conservation.

### **3.2 Water Prices are consumption based.**

Consumption based pricing is seen as a desirable means of sending consumers signals about the costs of their use. In this way, they have control over the water bills they incur and have opportunity for modifying their consumption behavior.

The long standing practice of providing a large water allowance of so many kilolitres for a fixed fee is clearly out of step with this process and is rapidly disappearing from urban water authorities in Australia.

### **3.3 Charges that are sufficient to allow water service providers to operate on a commercial basis.**

The 1992 Industry Commission National Enquiry in 1992 and subsequent Independent Pricing and Regulatory Tribunal in its major review of Sydney, water pricing in 1993 and by the Council of Australian Government in 1994, all endorsed the principal that urban water service provision should be on a commercial basis. A return should be provided on capital invested.

The Water Authority component of Council's operation falls into this category. Guidelines set by National Competitive agreements endorsed by the Council of Australian Governments allow water authorities to make an adequate return to allow for the operating maintenance and asset replacement costs of the business.

A modest profit directed to the shareholders of the business (municipal ratepayers) is therefore desirable but will not be abused.

### 3.4 Cross subsidies to be removed.

Cross subsidization of one group of consumers over another is of concern from an equity viewpoint, as well as from the consequences of inefficient use of resources.

Current charging methods provide such a subsidy to residential consumers at the expense of industrial and residential units. This should be removed as part of a fairer system introduced.

### 3.5 Access Entitlements.

There is a generally accepted principle that consumers should make some contributions to the provision of the infrastructure that provides the water service.

Whilst in Roxby Downs, water consumption costs are the largest part of the cost of water provisions, certain costs relating to depreciation of the assets are incurred annually.

Provision of some base charge to reflect minimum access entitlement should be considered as a principle in charging. However, this needs to be equitable and be set at a level and methodology that does not reduce consumption charges nor act as a disincentive to water conservation.

## 4. OTHER FACTORS

As indicated, WMC Resources have been reviewing its current methods of water provision and have identified that historically Council has not been levied for the entire amount of water purchased. WMC Resources identified this in 1999 resulting in a financial loss in operating the service in 1998/99 and 1999/2000.

As a result, approximately a 15% increase in water charges is required to avoid the service continuing to run at a loss.

Council is in the fortunate position of having the initial water plant and reticulation provided by WMC Resources as part of their Indenture Act responsibilities. Maintenance on the supply dam and the supply and treatment of the water to a potable state are also met by WMC Resources. Current budgets therefore do not contain any costs associated with servicing loans for existing infrastructure, nor costs for supply and storage of potable water.

However, given that the town is largely developed and serviced to meet the current needs of the community it is by no means certain that new infrastructure that may be required in any future expansion will be so provided at no cost to Council.

## 5. PRICING STRUCTURE

In accordance with these principles, it is considered that water pricing in Roxby should meet the following criteria.

- Largely consumption based.
- Should offer incentives to aid in water conservation.
- Eliminate cross subsidy arrangements.
- Improve equity by elimination of valuation based criteria.

Council has examined a number of alternatives before finalising a modified system. Not surprisingly the strong influence on water consumption costs dominate.

New Pricing Structure has three (3) distinct components as follows:-

## 1. Minimum charge per property (water allowance)

Approximately 10% of water expenditure is associated with non water consumption related costs such as repairs, maintenance, upgrades to plant etc., i.e: there is an inherent cost to provide the service to each property.

Clearly, a single flat minimum rate would be inequitable for large commercial and industrial properties. Australia's largest Water Corporation, Sydney Water and the smaller Hunter Water serving Newcastle and surrounding districts are leaders in introducing usage based pricing. Both have developed a base charge for access based on standard 20 mm service which provides water to most free standing residential properties and many smaller businesses.

For meter sizes above the base size, the charge is increased with the delivery capacity of the intake. Thus an intake served by a 40 mm meter has four times the capacity to deliver water as a 20 mm intake.

For residential customers in multiple residence dwellings, such as blocks of flats, units, owners can be charged on the basis of (the higher of) the delivery capacity of the intake or the number of units.

In view of the need to focus heavily on water conservation aspects, the minimum charge will only apply when consumption is less than the equivalent dollar value of water consumed.

## 2. Consumption on a per kilolitre basis

Charges on a per kilolitre basis for all water consumers will be applied. The level to be set will depend on future budget requirements and the need to:

- Encourage water conservation.
- Phase in increased water charges under the Indenture Act as imposed by WMC Resources.
- Ensure reasonable profitability levels as indicated under Section 3.3.

A two-tier pricing structure has been devised which offers "additional" incentives to consumers to aid in water conservation. It is considered that all consumers have the ability to modify behavior to assist in this process. The threshold consumption level and "upper rate" will need to be monitored and evaluated on a regular basis to ensure that aims are met without unfairly treating consumers. Alternatively a three tiered system could be introduced, although this would increase the number of "subjective" type variables.

The overall aim is to increase water conservation by providing incentives, not merely increasing revenue.

## 6. PROPOSED CHANGES

Following detailed analysis of 1998/99-water consumption, a number of changes are proposed. These are included in the attached summary, whereby 1999/00 charges are summarised in relation to current and proposed systems. Also included are "indicative" future charges for 2000/2001. However, these are subject to detailed budget review and should be used as a guide only.

As indicated in section 3.3, WMC Resources are entitled under the Roxby Downs Indenture Ratification Act to increase costs of water by approximately 70%. This will mean an increase in the water price charged by Council from an average of \$0.94 to "approximately" \$1.51 per kilolitre. This compares favorably with Coober Pedy where a charge of \$5.00 per kilolitre applies.

This increase essentially results from increased charges arising from WMC Resources applying cost increases that they are legally entitled to charge. However, they have agreed to phase in these cost increases over a two-year period. Accordingly only a portion of this cost increase will be passed on in 2000/2001.

Specific comparative changes for the 1999/00 year that achieve similar revenue are as follows:-

### 1999/00 Cost Comparison

PROPERTY TYPE	CHARGE CATEGORY	EXISTING		PROPOSED			
		Quarter	Annual	quarter		annual	
Houses	Minimum	\$30.75		\$30.00			
Other	Minimum	0.0533% of Capital Value	0.213% of Capital Value	\$30.00 per access unit		\$120 per access unit	
All	Consumption per kl	\$0.91	\$0.91	First 140 kl per qtr Balance	\$0.91 \$1.00	First 140 kl per qtr Balance	\$0.91 \$1.00

When access units define as follows:

20 mm service connection	greater of 1	or	number of residential units.
40 mm service connection	greater of 4	or	number of residential units.
50 mm service connection	greater of 6.25	or	number of residential units.
80 mm service connection	greater of 16	or	number of residential units.

## 7. CONCLUSION

As indicated in this discussion paper, changes to water pricing in Roxby Downs are essential to improve current inequities, to meet financial responsible performance and to assist in conserving a scarce resource.

Although no public authority enjoys increasing prices, Council has no choice but to take a responsive attitude to water pricing and has been able to negotiate with WMC Resources a generous phase in period for increased charges imposed commencing on January 2001.

## 8. FURTHER INFORMATION & ADVICE

This paper and further information on likely future charges for individual customers may be obtained by contacting the Council Office during office hours 9.00 am to 5.00 pm Monday to Friday, telephone: 8671 0010. Council staff would be pleased to offer advice to consumers on ways that water consumption can be reduced.

## 9 FEEDBACK

As part of the public consultation process Council would appreciate feedback on this discussion paper and the suggested changes. In particular comments on a three- (3) tier system would be appreciated.

Interested persons should therefore provide submissions in writing and have these submitted to the Council Office by Friday 26th June 2000.

**Bill Boehm  
Administrator**

### References

- SA Water –Water Pricing in South Australia – Discussion Paper – December 1999



**DISCUSSION PAPER**

**SEWERAGE PRICING**

**IN**

**ROXBY DOWNS**

**June 2000**

## 1. INTRODUCTION

This discussion paper examines various factors that effect the provision of sewerage services in Roxby Downs and discusses various principles for a potentially improved, more equitable pricing structure.

## 2. BACKGROUND

Council's role in the provision of sewerage services to its community arises out of appointment as a distribution authority under the provisions of the Roxby Downs Indenture Ratification Act 1982.

Accordingly, although Council performs other Municipal functions, as well as water and electricity, the provision of sewerage to consumers is nevertheless independent of normal Council functions. Performance should therefore be viewed independently from other operational areas.

Council currently sets sewerage charges based on similar lines and methods used by SA Water.

### 1999/00 charges per annum are as follows:

Residential	\$269 per house
Vacant Land	\$219 per block
Residential Units	\$0.00256 rate in the dollar of capital value
Commercial & Industrial	\$0.00256 rate in the dollar of capital value

For a quarterly billing, each fixed charge is calculated on a pro rata basis for the period concerned.

As indicated, current systems, whilst closely aligned to that adopted by SA Water, currently vary significantly in that all residential properties are treated equally. This is essentially equivalent to a capital valuation of \$105,078. It appears that this variation is as a result of simplicity and to avoid a multitude of special "sewer" tariffs being created. In contrast SA Water rates are all valuation based.

In March 2000, SA Water related a discussion paper titled "Sewerage Pricing in South Australia". In this document it outlines historically how current pricing arrangements came about, the factors that effect the cost of provision of sewerage services and the "philosophy" behind arguments for various alternative charging mechanisms.

## 3. SEWERAGE PRICING CONSIDERATION

Several arguments and factors have been identified by SA Water as potentially relevant to the pricing of sewerage services. These are outlined as follows: -

### 3.1 Aspects involved in the provision of sewerage services

Acceptance and transport of wastewater requires an extensive network of pipes that can receive wastewater from individual properties and deliver it to Council's lagoon type treatment facilities, location west of the township. Sewers are carefully designed, constructed and graded to facilitate gravity flow without fouling. In Roxby's undulating terrain this involves the provision of a number of pumping stations with pipes at relatively deep depths compared with water reticulation systems.

Accordingly, sewerage systems are very costly to construct compared with water mains of similar sizes. The cost of such pipework, sewer manholes and pumping stations comprises the single most significant cost. However, due to the number of pumping stations required, approximately 20 % of the maintenance costs are associated with pumping of effluent and recycled water.

Unlike Metropolitan Adelaide, the nature of the effluent is largely domestic wastewater. Trade waste and uncontrolled inflows are not significant.

### **3.2 Cost of Sewerage heavily dictated by infrastructure costs**

The provision of sewerage services requires substantial installed and dedicated infrastructure costs. Running costs form a relevant small proportion of expenditure and are thus relatively insensitive to changes in volume and pollutant loads.

However, there is an acute need to cover costs associated with depreciation of the assets; hence the need to ensure that a suitable level of funds are set-aside for the eventual replacement of infrastructure.

### **3.3 Full cost recovery/commercial operating basis**

The full cost of recovery of sewerage systems, albeit over a long term is essential to ensure the future sustainability and integrity of the system. This is notwithstanding the long lead-time in asset infrastructure replacement.

As indicated in Council's 2000 Water Pricing Discussion Paper, a sewerage authority should be permitted to make a modest profit directed to its shareholders (municipal ratepayers).

In view of the high constraints and high costs associated with the provision of water supply in Roxby Downs, it is inevitable that "profit" from water sales will be limited compared with other areas of the state.

However, fortunately for its financial viability of the municipal operation, there is a reasonable potential for the sewerage arm of the water distribution authority to provide reasonable financial returns, without exceeding currently accepted market rates or financial performance.

### **3.4 Existing Infrastructure**

Council is in the fortunate position of having the initial sewerage infrastructure provided by WMC Resources as part of their Indenture Act responsibilities.

Current budgets therefore do not contain any costs associated with servicing of loan for existing infrastructure.

However, given that the town is largely developed and serviced to meet the needs of the current community, it is by no means certain that new infrastructure that may be needed in the future for expansion will be so provided at no cost to Council.

### **3.5 User Pays Philosophy**

User pays means that the beneficiary of the sewerage services would be the target for cost recovery. This means that collectively, those connected to the sewer system would pay for the costs generated by that access and use.

In urban systems where vacant land is provided with the option of later connecting, by having the sewer main accessible, it is common practice to also charge for this as the capacity was, when put in, sized in such a way as to accommodate eventual connections. This serviced land has in this way contributed to the costs that must be met each year.

### **3.6 Minimum charges**

The practice of using a minimum charge, whether for occupied or vacant land arises principally because the benefit derived comes from having the network services available to all.

This general benefit accompanies the private benefit of people disposing of waste to sewer, a public benefit of reduced health risks and odour problems and a customer benefit that not only can customers dispose of the waste securely, but that neighbors can and must do likewise.

Accordingly, the use of a minimum charging philosophy is generally well founded and may be considered to be equitable regardless of whether consumers are connected or not.

### **3.7 Charging in relation to amounts of waste generated**

Unlike water distribution and supply, wastewater transportation and treatment costs are generally dominated by the fixed capacity costs of the system. In Roxby Downs, however, given the need for pumping and low costs associated with lagoon treatment, some consumption based costing arguments can be mounted to encourage water conservation.

However, conservation incentive arguments are in reality difficult to quantify or sustain as largely households control the quality and quantity of kitchen and bathroom waste.

The limited scope for reduction can mean that household sewerage consumption based charging may act as a “water” surcharge. However, its affect is uncertain as whilst volumes may decrease (if people cut back on some inside water use), the total effect on transport and treatment costs are likely to be uncertain.

### **3.8 Cross subsidies to be removed**

Cross subsidization of one group of consumers over another is an obvious consideration from an equity viewpoint.

Current charging mechanisms for residential and non residential customers seem to suggest that such a cross subsidization exists, largely because only selected customers have charges based on valuation.

However, unlike water consumption, there is a distinct lack of a direct relationship between usage and cost of servicing industrial customers.

Accordingly, not only would it be an administrative nightmare to fine tune differential charging, but the result would unlikely be to improve equity between properties, particularly in the residential sector.

### **3.9 Valuation based charging/simplicity of method**

The philosophical support for property based valuation-charging systems currently used by SA Water and partly used by Council is often given as a measure of an ability to pay.

However, this concept whilst historically accepted in the costs of municipal rating for provision of a multitude of services, is not as easy to justify in respect to a single service such as sewerage.

From an administrative viewpoint, whilst relatively simple in concept, there is a cost associated with maintaining a valuation base, notwithstanding that this needs to be carried out for municipal rating purposes.

Yearly variations, potential objections to valuations and difficulty in accepting methodology by consumers all discriminate against a reliance on property valuation systems. Consumers, who, through tenancy arrangements peculiar to Roxby Downs, are required to be in some ways, pay for sewerage services, further highlight this.

Unlike SA Water, valuation based charging is only partly used. This in itself causes inconsistency in application and creates difficulty to explain inequities.

#### 4. BENCHMARKING

Council's current schedule of charges is detailed with comparison with SA Water in both rural and urban situations.

PROPERTY TYPE	SA WATER		ROXBY DOWNS
	Adelaide \$	Country \$	\$
Residential Houses	0.256 % of CV	0.323% of CV	\$269
Residential Units	0.256 % of CV	0.323% of CV	0.256 % of CV
Commercial	0.256 % of CV	0.323% of CV	0.256 % of CV
Industrial	0.256 % of CV	0.323% of CV	0.256 % of CV
Vacant Land			\$219
Minimum	\$219	\$219	

As indicated, Council's current charges are below current generally accepted levels. Some movement to phase in increased residential charging is considered reasonable.

#### 5. PRICING STRUCTURE

In summary, the arguments previously described support the continued movement away from valuation pricing towards a fixed charge regime.

In order to treat commercial and industrial properties in an equitable fashion, Council has examined a number of alternatives. Not surprisingly, there is no clear discernable method to ensure that large properties such as hotels, caravan parks and motels are treated in an equitable basis.

Various methods including winter water consumption based, number of fixtures, assumed loading and unit charging were examined before a modified system was finalized.

Proposed new pricing structure involving a relatively simple flat fee type unit structure, with special consideration given to the relatively few commercial properties with high usage per property. The method adopted by the Local Government Association for septic tank effluent disposal schemes with minor variations is considered to be a reasonable, realistic and a simple approach to a complex issue.

Proposed alterations are aimed at improving equity in charging for sewerage services, not as a means of raising additional revenue.

Proposed new pricing structure has the following components: -

##### a. Residential Dwellings

A residential dwelling = 1 property unit.

*A residential dwelling comprises a single household occupancy whether a flat, unit, semi-detached or separate dwelling.*

##### b. Vacant Allotments

A vacant allotment = 1 property unit.

*A vacant allotment comprises any parcel of land held under separate title, capable of sale without requirement approval for division.*

**c. Commercial Premises –(Shops, offices, government or private agencies etc.)**

The number of property units is obtained by dividing the total number of employees by six (6).

*eg: A general store employing 10 persons full-time equivalents would be charged two (2) property units).*

**d. Multiple Commercial Premises with or without Residence**

A single property unit shall be charged for the residence plus each separate Commercial occupancy forming a part of the premises. Each commercial occupancy shall be calculated separately on the overall number of employees in accordance with “c” of this section.

*NB: Where an office (or other business not producing any wastewater) and a residence are combined and occupied by the same person/s, a single property unit may be considered an appropriate charge.*

**e. Hospital, Nursing or Rest Homes, etc**

The number of property units are obtained as follows:

The total number of employees (full time equivalents, not living on the site) plus number of beds divided by six = the number of property units to be charged.

Any Residential Dwelling attached to the complex and/or any permanent occupancy will attract a separate unit charge.

**f. Hotel, Motel, Clubs etc**

The total number of employees (full time equivalents, not living on the premises) plus (the number of accommodation beds multiplied by the occupancy rate %) divided by six = the number of property units to be charged.

*Premises with a Public Bar or Restaurant*

Where a public bar and/or restaurant exists at a hotel, motel or club additional property units are to be added for the bar/restaurant trade as follows:

Where the average daily attendance is up to 50 persons, one additional property unit shall be charged. A further additional property unit shall be charged for each additional 50 persons or substantial part thereof.

**g. Halls, Change Rooms, Community Centres, Sporting Facilities etc**

(Non commercial premises, not including accommodation, bar or restaurant facilities).

Where the average attendance over a week is up to 50 persons a day, one property unit should be charged. An additional property unit should be charged for each additional 50 persons or substantial part thereof.

**h. Schools**

The number of property units are obtained as follows:

$$\frac{(\text{Number of students} + \text{staff}) \times 0.125}{6}$$

(eg: In the case of a school which has 453 students plus 15 teachers the result is 10 property units)

**i. Churches and other exempt properties not including a residential dwelling**

Each property = one property unit.

**j. Industrial Premises**

The number of property units for the connection of staff ablutions only is calculated on the number of employees in accordance with "c" of these Guidelines.

*Laundromats*

To calculate the number of property units for these premises, it is necessary to determine the number of litres of water used per day. Where direct water meter readings are not available this can be calculated as follows:

The number of washing machines in the premises x the average number of washing cycles per machine per day x the number of litres used per cycle.

The number of property units to be charged can then be calculated by dividing the litres of water used per day by 500.

**k. Caravan Parks**

The number of property units for Caravan Parks shall be calculated in accordance with the annual daily site and camping (tents) occupancy.

Permanently occupied sites such as a caretakers/owners dwelling, mobile home, cabin etc., shall be classed as one occupied unit.

<i>Example</i>	<i>Daily Site Occupancies Per Annum</i>	<i>Property Units</i>
<i>Caretakers Dwelling</i>		1
<i>Permanently Occupied Sites</i>		5
<i>Caravan Sites</i>	( a ) 1,800	
<i>Holiday Cabins</i>	( b ) 500	
<i>Tents (Camping Sites)</i>	( c ) 200	
<i>Total Annual Occupancies</i>	<u>2,500</u>	
<i><math>\frac{2,500 \text{ occupancies}}{365 \text{ days in a year}}</math></i>	=	6.84
<i>Total Property Units</i>		<u>12.84</u>
<i>Therefore, Total Property Units to be charged =</i>		13
<i>Where,</i>		

( a ) = the number of vans sits x the number of days occupied per year.

( b ) = the number of holiday cabins within the caravan park x the number of days occupied per year.

( c ) = the number of tents (camping sites) x the number of days occupied per year.

**l. Miscellaneous**

The minimum service charge to be applied to any property = 1 Property Unit.

Where a calculation determines a part unit, round to the nearest full unit.

## 6. PROPOSED CHANGES

Following a detailed analysis, a number of changes are proposed. These are included in the attached summary. As indicated, a year phase in period has been proposed to phase in indicative increases.

Specific charges for the 1999/00 year that achieves similar revenue is detailed as follows:

PROPERTY TYPE	EXISTING \$	PROPOSED \$
Residential Houses	\$269	\$269 per unit
Residential Units	0.256% of CV	\$269 per unit
Commercial	0.256% of CV	\$269 per unit
Industrial	0.256% of CV	\$269 per unit
Vacant Land	\$219	\$269 per unit

## 7. CONCLUSION

As indicated in this discussion paper, changes to sewerage pricing, whilst not essential as for the provision of water, are nevertheless desirable to improve current inequities, reduce administration and improve understanding.

Although changes for change sake is not considered desirable, the fixed charge unit method of charging has wider support within Local Government. Although not definitive, it is considered more applicable and relevant to the costs associated with providing sewerage services in Roxby Downs.

What is clear is that existing valuation based charging where only partly applied has significant inequity and limited theoretical base for its continued application.

## 8. FURTHER INFORMATION

This paper and further information on likely charges for individual customers may be obtained by contacting the Council Office during office hours between 9.00 am and 5.00 pm, Monday to Friday. Telephone: 08 8671 0010.

## 9 FEEDBACK

As part of the public consultation process Council would appreciate feedback on this discussion paper Interested persons should therefore provide submissions in writing and have these submitted to the Council Office by Friday 26th June 2000.

### References

- SA Water  
Sewerage Pricing in South Australia. - Discussion Paper - March 2000.
- Local Government Association of South Australia.  
Guidelines for Establishing Property Units Related To Service Charges for Septic Tank Effluent Disposal Schemes. - January 1989.

**Bill Boehm  
Administrator  
June 2000**

<b>POLICY</b>	 <p><b>roxbycouncil</b> young vibrant community</p>	<b>RCP – 58A</b> (Previous Part 123)
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<b>TITLE</b>	<b>WATER &amp; SEWERAGE INFRASTRUCTURE CONTRIBUTIONS</b>
<b>DATE</b>	<b>24 February 2011</b>

**Administration**

Responsible Department/Officer	Finance
Date of Adoption	26 Oct 2006
Date Prepared	26 Oct 2006
Council Review Dates	24 Feb 2011
Audit Committee Review Dates	
Related Procedures/Policies	RCP-58
Reference to Strategic Plan	

**1. INTRODUCTION**

This policy is an extract from Policy RDP-58 – Capital Contributions Infrastructure & Services as it relates to the provision of water and sewerage services.

**2. BACKGROUND**

In the second half of 2005 all South Australian Local Governments faced a financial sustainability Inquiry independently conducted by a board of inquiry with support from Access Economics on behalf of the Local Government Association of South Australia. Some of the findings of the report were reinforced by substantial changes to the State's Legislation that governs Local Government including Roxby Downs Council, particularly in relation to asset and infrastructure management planning and commitment and long term financial planning.

The matter of unfunded infrastructure liabilities is a prime outcome of the Inquiry with significant impacts for this Council including not only the Municipal operation but also for Electricity, Water & Sewerage.

In September 2004 Council formally brought this issue to prominence with the State Government, WMC Resource (now BHP Billiton) holistic manner for all of Council's operations. Ie municipal, water, sewerage and electricity

**3. PRINCIPLES**

There are a number of relevant principles associated with the levying of infrastructure contributions but the basic premise is that regardless of the type of infrastructure. existing customers through current and previous user charges actually make a contribution to the depreciation of the asset on an annual basis. Eg the supply charge component of water charges. By implications any new development; whether it be as an extension or infill has not made any such contribution and as such in principle should do so at the time of development.

**4. COMPARISONS**

There are a number of comparisons of note that are worthy of consideration

SA Water

SA Water have stronger more specific legislative powers that relate to Standard Capital Contributions when subdividing land pursuant to Part 4 of the Waterworks Regulations 1996 and Part 5 of the Sewerage Regulations 1996. Their Standard Capital Contribution (SCC) specifies a contribution towards the existing main plus the cost of a connection to the property boundary

2010/11 charges applicable are as follows:

## Residential

Water	\$3,082 per lot for the SCC component
Sewer	\$5,935 per lot for the SCC component

## Industrial / Commercial

The above Standard Capital Contributions x sq root (Area of Allotment/1200m<sup>2</sup>)

**5. FINANCIAL JUSTIFICATION**

As with all other local governments, unfunded depreciation remains as the key issue facing Roxby Downs Council. Unless Council consistently operates an operating surplus before Capital revenues, it will never be in the position of raising sufficient income to fund asset replacement.

Given the restrictions placed on Council in the Indenture as regards raising revenue and the unique deficit funding arrangements compared to all other South Australian Local Governments, Council will not be in the position of ever generating sufficient operating revenues (such as rates, fees and charges) to fund all of the Council Services and Asset Replacements, let alone for new assets (not being the replacement of existing assets).

The proposal under consideration, to charge an upfront contribution per allotment, is intended to assist in the making up of this funding shortfall dilemma facing Council. This is especially relevant given our remote location region and the much higher capital and operating costs compared with metropolitan and other rural regions.

It also needs to be noted that whilst any new development will bring in additional revenue this new revenue source will invariably be spent in maintaining new infrastructure associated with the development and providing the additional services that the new development will require.

**6. LEGISLATIVE REQUIREMENTS**

In Roxby Downs the Council's powers in relation to the maintenance and construction of infrastructure and provision of services are also obtained through the Local Government Act 1999, and the Development Act 1993, as modified by the *Indenture*. For existing freehold land the ability for Council to charge a capital contribution might be achieved by way of a Council Policy Position with requirements attached to development consent under the Development Act 1993 where the requirement is related to the subject land.

In relation to the provision of water and sewerage services under the Schedule to the Indenture

- Part of Clause 13(22) provides that "*the Charges (including stepped charges) to be levied for the supply of potable water and the provision of sewerage services shall be determined by the Distribution Authority*".....
- Clause 13(24) provides that "*all of the potable water supply and sewerage facilities constructed within the township or for township purposes are to be constructed and maintained to standards normally adopted by the Engineering and Water Supply Department and the quality of the water supplied for township purposes shall be to standards reasonably acceptable to the South Australian Health Commission.*

Unlike SA Water whilst there are no express provisions relating to Capital Contributions for water and sewerage services, both of the above provisions can be said to provide support for Council to charge such amounts.

## 7. FINANCIAL IMPACT ON CONSUMERS

As indicated this is a serious issue for the overall financial sustainability of Council and the community and one that needs to be addressed, especially as the costs associated any contribution would be recovered by future property owners and not as is the current situation from the State Government and BHP Billiton who both underpin Council's budget where the sustainability of water and sewerage operations has a significant impact.

Furthermore the potential financial impact on new purchasers of an amount similar to SW Water is not considered significant and one that would normally be expected to apply elsewhere in South Australia. It is a matter of record that the Roxby Downs Community has one of the highest average earnings per capita in South Australia and that the residents accept that the cost of living in such a remote area is much higher than elsewhere. The market place sets prices based on supply and demand and accordingly, any potential impact of the proposed developer contribution to purchasers of new allotments will be minimal.

## 8. SUMMARY

Council adopts as a policy Capital Contributions towards the existing infrastructure and services for all new land divisions

In addition Council should obtain these payments be made to Council prior to the sale of any allotment and that apart from use as a cash flow mechanism they should it be held by Council in Reserve Funds and that it any expenditure should only be undertaken on infrastructure replacement items that form part of Council's approved budgets.

Capital contributions collected shall be applied against the depreciation of Council's existing infrastructure as well as towards new capital works at the discretion of Council.

Capital contribution amount set is at the following levels:

Residential & Industrial Subdivisions	Water	\$3,000
	Sewerage	\$5,750
Commercial / Residential Camps	An equivalent contribution based on the above	

## 9. REVIEW AND EVALUATION

The effectiveness of this Policy will be reviewed and evaluated annually within Council's strategic management planning framework.

**Bill Boehm**  
**Administrator**

## WATER CONSUMPTION COMPARISONS

Notwithstanding the very low rainfall, high pool ownership and young age of our community, water consumption continues to be moderate and compares favourably with other regional communities.

Statistic	2010/11	2009/10	2008/09
Vol of water sold to customers (kl)	641,840	657,551	728,991
Average Price per kl	\$3.14	\$3.19	\$3.00
Estimated township population	4,948	4,762	5,087
Total water consumption. (litres/head per day)	355	378	412

Notes:

- (i) The above table should be used as an overall guide only but a given that populations are estimates.
- (ii) Under the Indenture a minimum allowance of 650 litres of water /head/per day plus a reasonably sufficient quantity for parks & gardens and community parks needs to be provided to the Town.

## METER READINGS

Meters are read manually and whilst every effort is made to ensure that readings are accurate from time to time errors can occur. If you believe that an error has occurred then please contact the Council Office to arrange for another reading to be undertaken. If this is proven to be correct a adjustment to the account will be made based on previous consumption histories

## MONITORING FOR LEAKS

Check the plumbing system for leaks. To achieve this last thing at night turn off all appliances and taps and then read the meter. First thing in the morning read the meter again. If it has changed then leakage is occurring.

## METER TESTING

It's a common "myth" that water meters do not register correct and can record fast when in fact it is practical impossibility. Indeed since the inception of Council no meter has ever been found to read fast!

However if you do believe that your meter is not registering correctly, you are not satisfied that the readings have been recorded correctly and have checked for leaks then you can request a water meter test. A fee will be charged but if the meter is incorrect it will be replaced at no cost.

## DOMESTIC WATER USE

Knowing where you use the most water around the house helps you to understand where water savings can be made. You can also do a water audit to see how water wise your home really is.

We all use water differently, but studies have shown the following water usage in an average suburban South Australian home:

Garden & Outdoor 40%	Bath & Shower 20%
Laundry 16%	Kitchen 11%
Toilet 11%	Other 2%

## FURTHER INFORMATION

For residents that require a further, more detailed explanation on these charges or to obtain a detailed discussion paper which highlights the complex issues around water and sewerage pricing in Roxby, please contact the Council Office during office hours.

**roxbywater**  
 Division of **roxbycouncil**  
 Richardson Place PO Box 124 Roxby Downs SA 5725  
 T 8671 0010 F 8671 0452 E roxby@roxbycouncil.com.au



**roxbywater**  
 a division of roxby council

Water & Sewerage Services

**JANUARY 2012**  
**FLYER**

Are you pouring your savings.....



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**INTRODUCTION**

In adopting the 2011/12 budget, Council highlighted likely changes in 2011 for the retail price for water and sewerage services with a nominal 6 - 7% increase in revenue foreshadowed within Council's business unit Roxby Water.

A number of factors are taken into account in an annual review. These included the following:

- Impacts of inflation and higher and increasing operating costs remain an issue with the local inflation rate of around 7%.
- Additional work associated with servicing and an expanded township.
- Rates & Charges must be set in accordance with Section (13)(22) of schedule to the Roxby Downs (Indenture Ratification) Act 1982 which specifically provides for a profit to be returned to "municipal" shareholders." This practice is in line with the operations of SA Water.
- Given Council's overall budget deficit situation water and sewerage charge increases are required to ensure that the provision of water supply and sewerage services can accommodate requirements to replace water & sewerage assets as well as return commercial dividends to the municipal operation
- Any increases in costs in the price of water purchased from BHP Billiton also need to be factored in.

As a result the following changes have been adopted for 2012.

**WATER**

- Current \$40.00 supply charge per access unit increases to \$42.00.
- Current 2 step pricing structure per access unit encourages "responsible" consumer behaviour, with the top tier rate at a higher level to provide further incentive to conserve water.

Current first step is at 34kl per quarter with the second step of 120kl equating for a 3 person family to around the current average water consumption per person within the town.

- Increased tariffs in combination with supply charge equate to an "average" increase in water bills by around 7%. This accords with Council's adopted budget.

**SEWERAGE**

- Sewerage charges have increased from the current \$149 per property unit to \$160 again in line with the foreshadowed increase of around 7%.

For residential premises, depending on a properties valuation, this is less than charges that are applied by SA Water in Country South Australia.

**PAYMENT OPTIONS**

Aside from the normal quarterly billing Council has automatic credit card and direct debit options to assist customers in paying their accounts and thereby avoid late payment fees or the hassles associated with supply being restricted.

A copy of a direct debit or credit card authorisation form which offers options of "Flexi Pay" or "Automatic Quarterly Deduction", is available upon request from the Council Office.

Residents are encouraged to discuss these options with Council staff and be on your way to a hassle free method of payment.

**RATES & CHARGES**

The following water & sewerage rates and charges (GST is not applicable) will be effective from 1 January 2012 and will be included in the next water billing period.

Water

All Properties	Charges per access unit per quarter
Supply Charge	\$42.00
First 34 kl	\$1.65 per kl
34 – 120 kl	\$3.25 per kl
Over 120 kl	\$4.95 per kl
Access Units <i>(Based on the size of water meter)</i>	Number
20mm service connection	1
25mm service connection	1.5625
50mm service connection	6.25
80mm service connection	16

Sewerage

Sewerage charges for all properties are based on establishing property units for each type of property according to use, as per guidelines established by the South Australian Local Government Association.

**All Properties**                      \$160 per property unit per quarter

Miscellaneous Fees & Charges

Fee	\$ per item
Special Meter Reading Fee	\$32.50 (up to 4 pm during business hours) \$80.00 after hrs
General Account / Administration Fee (Excludes Special Meter Reading Fee)	\$35.00
Late Payment Fee (Sent with reminder notices)	\$16.00
Other Fees - Details available from Council	

## SA WATER 2002/03 ANNUAL REPORT EXTRACT

ITEM	Metro Water	Country Water	Metro Sewer	Country Sewer	Other	Total
<b>Revenue (pg 58)</b>						
Rates & Charges(\$k)	\$201,859	\$91,824	\$197,518	\$22,149	\$0	\$513,350
Community Service Obligations (CSO) (\$k)	\$1,353	\$71,656	\$7,638	\$10,489	\$570	\$91,706
Community Service Obligations (CSO) (%)	1.5%	78.1%	8.3%	11.4%	0.6%	100.0%
Contributed Assets (\$k)	\$13,032	\$6,269	\$20,179	\$3,331	\$0	\$42,811
Other Revenue (\$k)	\$12,095	\$6,790	\$6,936	\$1,478	\$26,967	\$54,266
<b>Total segment revenue</b>	<b>\$228,339</b>	<b>\$176,540</b>	<b>\$232,271</b>	<b>\$37,447</b>	<b>\$27,537</b>	<b>\$702,134</b>
<b>Segment Result</b>	<b>\$107,073</b>	<b>\$59,650</b>	<b>\$145,636</b>	<b>\$19,744</b>	<b>-\$4,300</b>	<b>\$327,803</b>
<b>Dividends (pg 41)</b>						
Operating Profit after income tax (\$k)						\$162,179
Total dividends paid (\$k)						\$137,175
<b>Statistics (pg 81)</b>						
Water Consumption (Ml)	178,385	103,396				281,781
Length of Sewers (km)			8,695	16,547		25,242
<b>Analysis</b>						
Water Rates & Charges(\$/kl)	\$1.13	\$0.89				
Water CSO (\$/kl)	\$0.01	\$0.69				
Sewer Rates & Charges(\$/km)			\$22.72	\$1.34		
Sewer CSO (\$/km)			\$0.88	\$0.63		
Rates & Charges incl CSO (\$k)	\$203,212	\$163,480	\$205,156	\$32,638	\$570	\$605,056
Water Rates & Charges incl CSO (\$/kl)	\$1.14	\$1.58				
Sewer Rates & Charges incl CSO (\$/km)			\$23.59	\$1.97		
Segment Result (\$/kl)	\$0.60	\$0.58				
Segment Result (\$/km)			\$16.75	\$1.19		
Dividends per operation (\$k)	\$44,807	\$24,962	\$60,944	\$8,262	-\$1,799	\$137,175
Water Dividends per operation (\$/kl)	\$0.25	\$0.24				
Sewer Dividends per operation (\$/km)			\$7.01	\$0.50		