



URALLA SHIRE COUNCIL BUSINESS PAPER

BUDGET REVIEW AND FINANCE COMMITTEE MEETING

8 December 2020

Uralla Shire Council
Budget Review and Finance Committee
Business Paper – 8 December 2020

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- A G E N D A -

Budget Review & Finance Committee Meeting

8 December 2020, 12:30pm, Council Chambers

- 1. Opening & Welcome**
- 2. Prayer**
- 3. Acknowledgement of Country**
- 4. Webcast Information**
- 5. Apologies, Requests for Leave of Absence**
- 6. Disclosures & Declaration of Interests**
- 7. Confirmation of Minutes**
 - 7.1 Budget Review and Finance Committee Meeting held 13 October 2020
- 8. Urgent Supplementary & Late Items of Business**
- 9. Reports to Committee**
 - Report 9.1 | Tiered Water Pricing
- 10. Motions on Notice**
- 11. Confidential Business**
- 12. Meeting Close**

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1. OPENING & WELCOME
2. PRAYER
3. ACKNOWLEDGEMENT OF COUNTRY
4. WEBCAST INFORMATION
5. APOLOGIES, REQUESTS FOR LEAVE OF ABSENCE
6. DISCLOSURES & DECLARATIONS OF INTEREST
7. CONFIRMATION OF MINUTES

Minutes to be confirmed at the 8 December 2020 Meeting:

7.1 Budget Review and Finance Committee Meeting held 13 October 2020 –
see page 5



MINUTES

Budget Review & Finance Committee

Meeting 13 October 2020, 12:30pm, Council Chambers

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**Minutes of the Budget Review & Finance Committee Meeting
held at 13 October 2020, 12:30pm, Council Chambers**

Resolution No.

ATTENDANCE

Present were the Chairperson Cr M Pearce (Mayor), Cr R Crouch (Deputy Mayor), and Councillors, R Bell, M Dusing, N Ledger, T O'Connor, L Sampson, I Strutt, T Toomey, General Manager (Mrs K Jessep), Chief Financial Officer (Mr S Paul), Director Infrastructure and Development (Mr T Seymour), Executive Manager Corporate Services (Ms C Valencius), and Minute Clerk (Ms W Westbrook).

1. OPENING & WELCOME

The Chair declared the meeting opened at 12:45pm.

2. PRAYER

The Chair recited the Uralla Shire Council prayer.

3. ACKNOWLEDGEMENT OF COUNTRY

The Uralla Shire Council recognises the traditional custodians of the land on which this meeting is being held and acknowledge Aboriginal Elders past and present and we pay respect to them and their heritage.

4. WEBCAST INFORMATION

This meeting is being audio recorded with the recording made available on Council's website after the meeting.

5. APOLOGIES, REQUESTS FOR LEAVE OF ABSENCE

The Chair advised there were no apologies received

6. DISCLOSURES & DECLARATION OF INTERESTS

There were no disclosures or declarations made.

7. CONFIRMATION OF MINUTES

Minutes to be confirmed at the 13 October 2020 Meeting:

- *Minutes of Budget Review and Finance Committee meeting held 11 August 2020 (to be confirmed)*

AMENDMENTS

- *Report 1 "Frist to First"*

MOTION Moved: Cr Strutt/ Seconded: Cr Dusing

That the Committee confirm the minutes, together with amendments as noted, as a true and accurate record of the Budget Review and Finance Committee meeting held 11 August 2020.

BRFC01.10/20 CARRIED UNANIMOUSLY

8. URGENT, SUPPLEMENTARY & LATE ITEMS OF BUSINESS

The Chair advised there were no urgent, supplementary or late items of business.

9. REPORTS TO COMMITTEE

Report 1 | Tiered Water Pricing

The Committee discussed the report and options in detail including further modelling options to be considered.

That the matter lay on the table until the December 2020 meeting of the Budget Review and Finance Committee.

*Cr Sampson left meeting 1:54pm
Cr Sampson returned to meeting 1:56pm
Cr Ledger left meeting 1:56pm
Cr Ledger returned to meeting 1:56pm*

MOTION (Moved: Cr Strutt/ Seconded: Cr Dusting)

BRFC02.10/20 CARRIED UNANIMOUSLY

10. NOTICE OF MOTION

There were no Motions on Notice to the 13 October 2020 Meeting

11. CONFIDENTIAL BUSINESS

There were no confidential business items to the 13 October 2020 meeting.

12. MEETING CLOSE

The meeting closed at 2:04pm

8. URGENT, SUPPLEMENTARY & LATE ITEMS OF BUSINESS

9. REPORTS TO COMMITTEE

Report 9.1 | Tiered Water Pricing

Department: Finance
Prepared by: Corporate Accountant
TRIM Reference: UINT/20/11172
Attachments: #1 (page 19)

LINKAGE TO INTEGRATED PLANNING AND REPORTING FRAMEWORK

Goal:	4.2	An effective and efficient organisation
Strategy:	4.2.2	Operate in a financially responsible and sustainable manner
Activity:	4.2.2.1	Maintain and control financial system and improve long term financial sustainability
Action:	4.2.2.1.10	Review all fees and charges on an annual basis for full cost recovery

SUMMARY

This business paper sets out the actions necessary to achieve Council's strategic objective of operating the Water Fund at a balanced operating position over the next ten years. It is proposed that Council introduce tiered pricing for water usage and increased access charges to generate sufficient income to cover operating expenditure.

RECOMMENDATION

That the Committee recommend to Council that:

1. Tiered pricing for water usage be introduced from 1 July 2021 as follows:
 - a. 0 to 250 kilolitres \$3.20 per kilolitre
 - b. Greater than 250 kilolitres \$6.80 per kilolitre
2. Bulk water charges are increased to \$6.80 per kilolitre (previously \$5.20)
3. Base access charges be varied as follows:
 - a. Per 20mm connection \$ 380.00
 - b. Per 25mm connection \$ 594.00
 - c. Per 32mm connection \$ 973.00
 - d. Per 40mm connection \$1,520.00
 - e. Per 50mm connection \$2,375.00
 - f. Per 80mm connection \$6,080.00

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BACKGROUND

At the Ordinary Meeting of Council held on 25 February 2020, it was resolved to:

Set a strategic objective for both the Water and Sewer Funds to operate during the next ten years at a balanced operating position including the full funding of depreciation, amortisation and impairment of intangible assets and infrastructure, property, plant, equipment and the modelling of tiered water pricing.

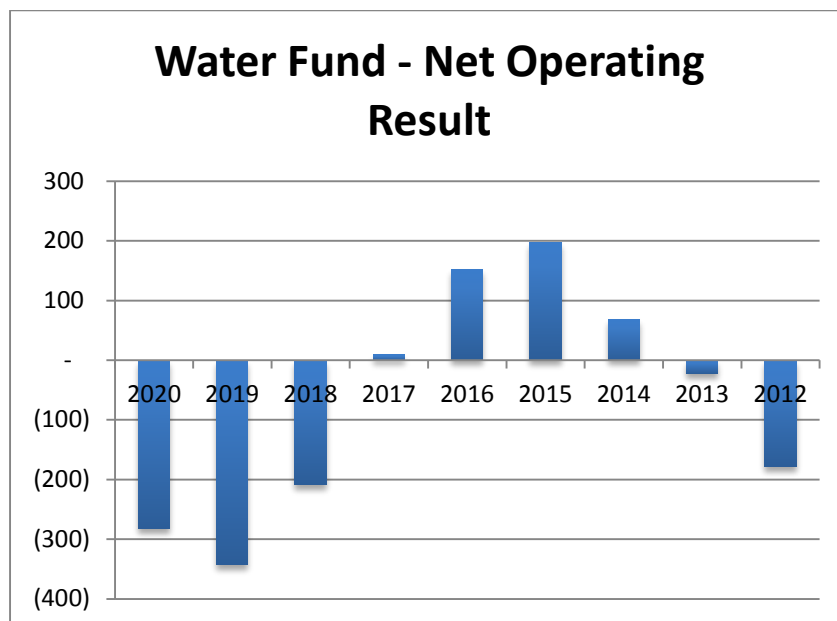
This resolution recognised that the Water Fund could not continue to incur losses without affecting the financial sustainability of the Fund and ultimately threatening the ability of the Council to provide drinking water to residents connected to town water supplies.

A series of reports have been presented to this Committee recommending that Council increase both water access charges and usage charges. At the 13 October 2020 Committee meeting, a recommendation was made to introduce tiered pricing for water usage of \$3.80 per kilolitre up to 250 kilolitres and \$5.60 per kilolitre thereafter. In addition to the tiered pricing it was proposed that access charges also be increased to \$400 for single occupancy properties and \$270 per unit in a multi-occupancy property. Further consultation was held with Councillors at the November 10, 2020 workshop.

This is an update to the report presented to the 13 October 2020 Budget Review and Finance Committee Meeting with additional information examining the impact of ‘non-drought’ water usage, required revenue and various alternatives for water pricing, together with other revenue raising opportunities.

REPORT

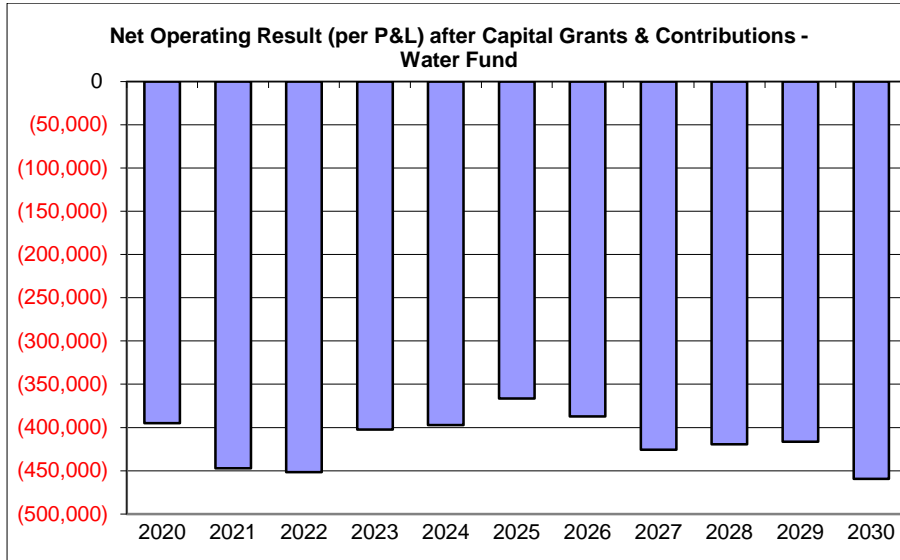
Over the past three years the Water Fund has incurred an operating loss – see graph 1 below.



Graph 1 – Water Fund Actual Net Operating Results 2012 to 2020

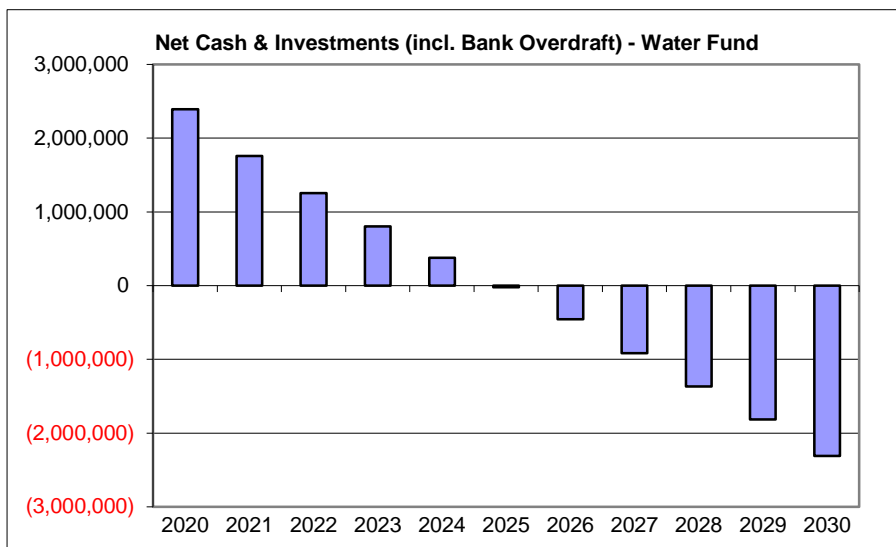
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In setting budgets for the past two years, recommendations have been made to increase charges by amounts of up to 15% p.a. over each of the ensuing four to five years. Council has resolved to only increase charges by 5% in each budget year (not forward years) resulting in continued operating losses over the term of the draft long term financial plan (LTFP) – see graph 2 below.



Graph 2 – Water Fund Projected Operating Results 2021 to 2030

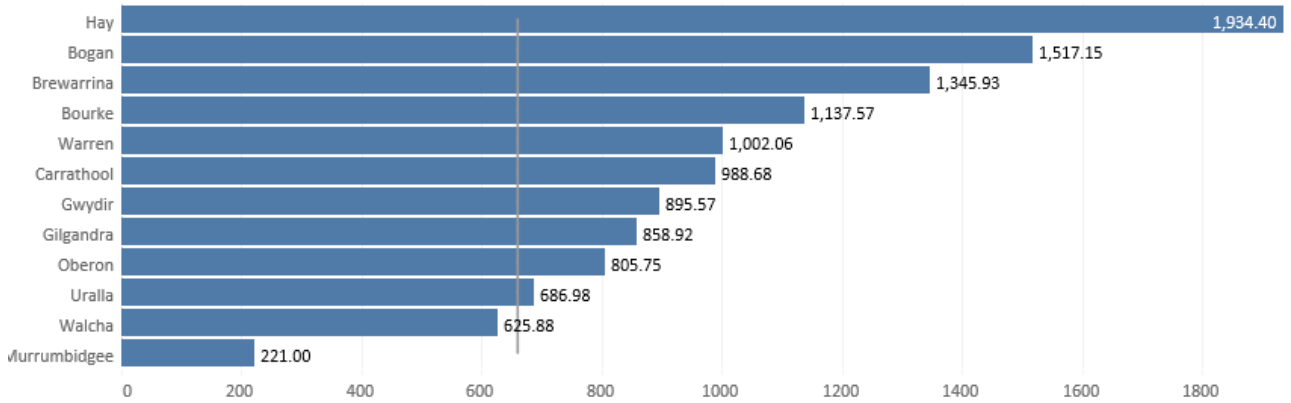
The draft LTFP to 30 June 2030 (Base Case) predicts that the Water Fund will incur losses of between \$367,000 and \$460,000 per annum. Assuming the need for infrastructure renewals and upgrades of between \$220,000 and \$587,000 per annum, the cash position of the Fund will deteriorate from available funds of \$2.391 million to borrowings of approximately \$2.0 million – see graph 3 below.



Graph 3 – Water Fund Projected Net Cash & Investments 2021 to 2030

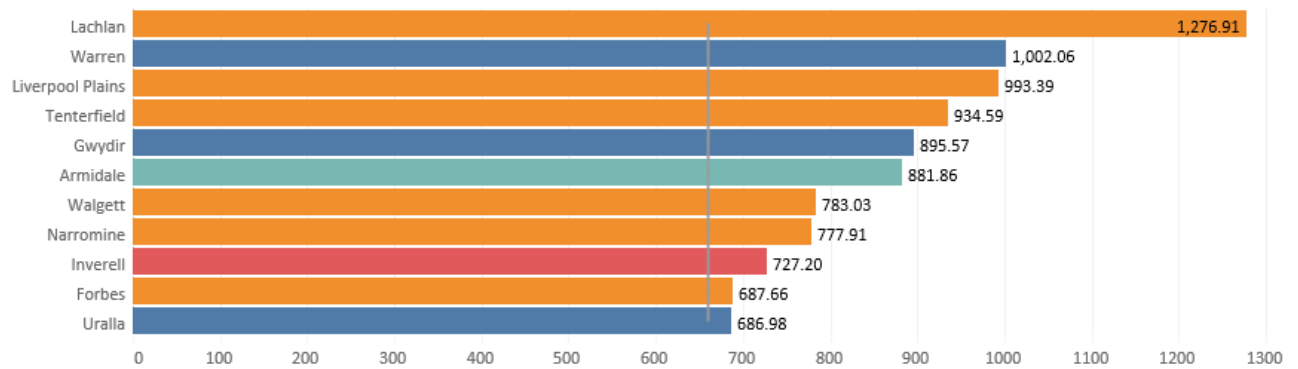
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Information obtained from the NSW Department of Planning, Industry and Environment² indicates that Uralla Shire Council currently (based on 2018-19 data) has the third-lowest median residential bill for water amongst LWU's with less than 1,500 connections – see Graph 4 below.



Graph 4 – Typical residential bill for 2018-19 – usage – WS – less than 1,500 connections

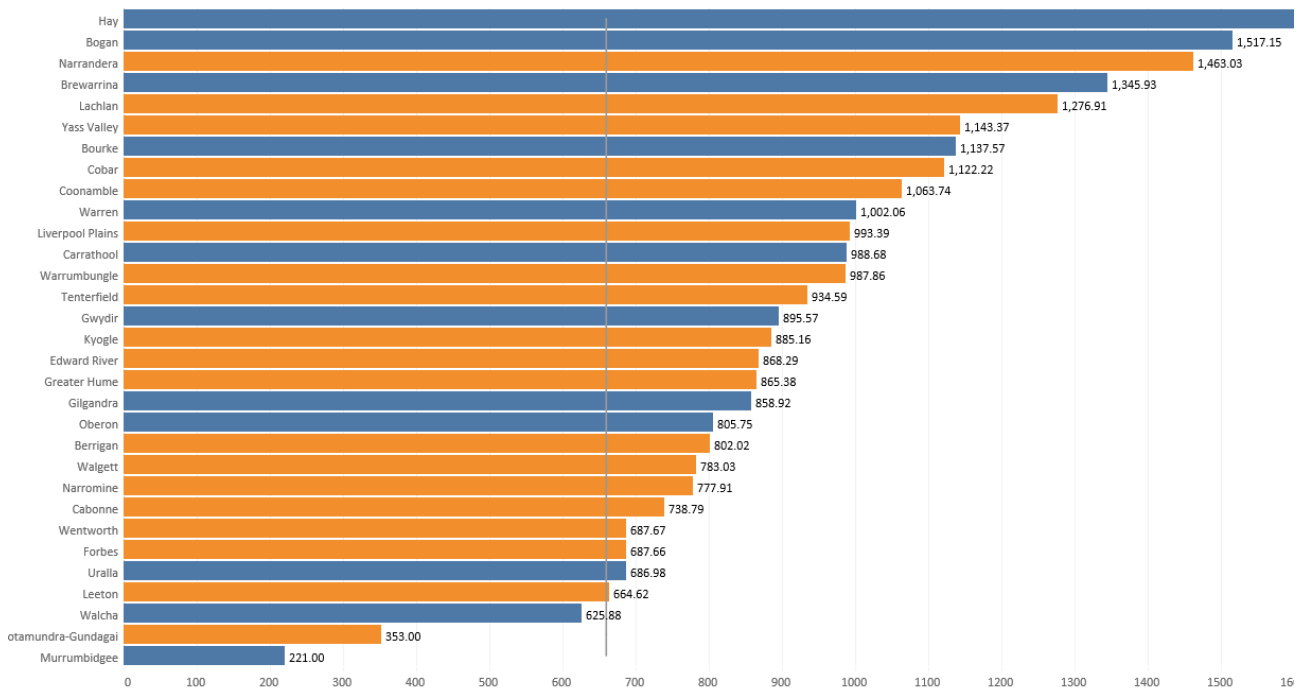
Similar information is contained in selected LWU's that are similar in size to USC or which are neighbours of USC – see graph 5 below.



Graph 5 – Typical residential bill for 2018-19 – usage – WS – selected LWU's

Including all LWU's that have up to 4,000 connections also indicates that USC has one of the lowest median residential bills for water supply – see graph 6 below.

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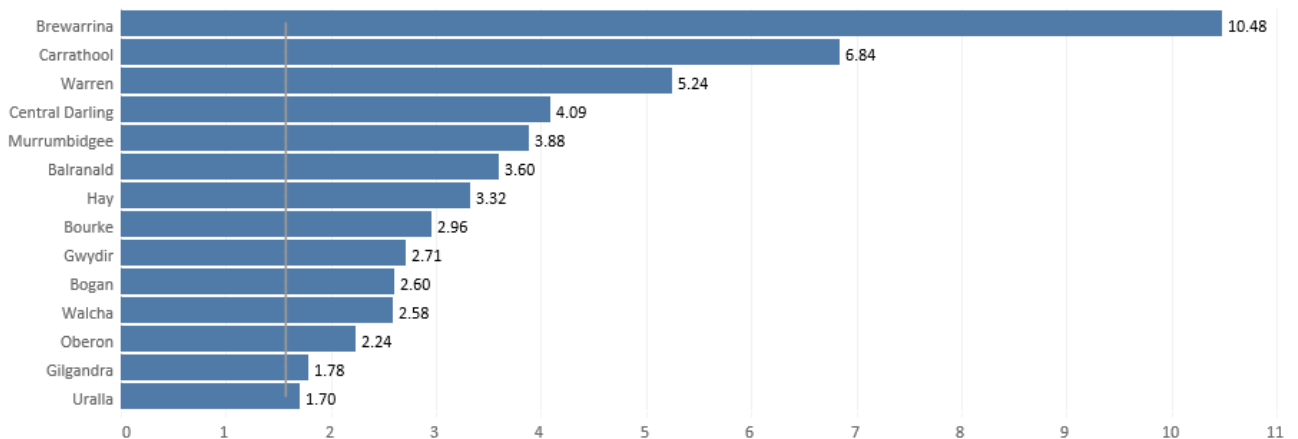


Graph 6 – Typical residential bill for 2018-19 – usage – WS – selected LWU’s of financially similar councils

In each of the cases outlined above, the weighted median (the grey line above) is \$660.12² which is based on the entire NSW sample, not just the selections shown.

Services Operating Efficiency

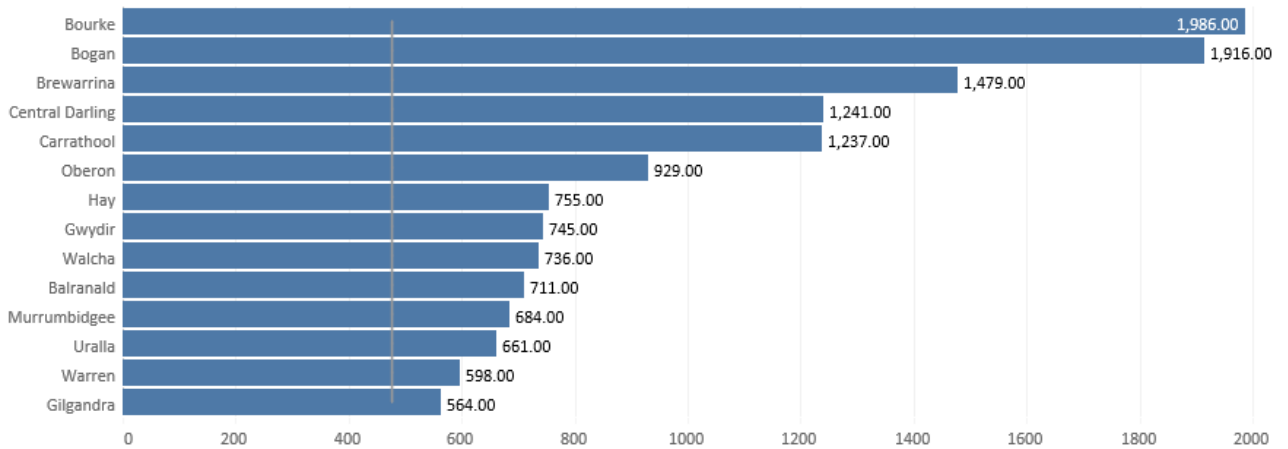
Uralla also has the lowest number of employees per 1,000 properties compared to others in the grouping of less than 1,500 properties, as seen in the graph below.



Graph 7 – Total workforce per 1,000 properties

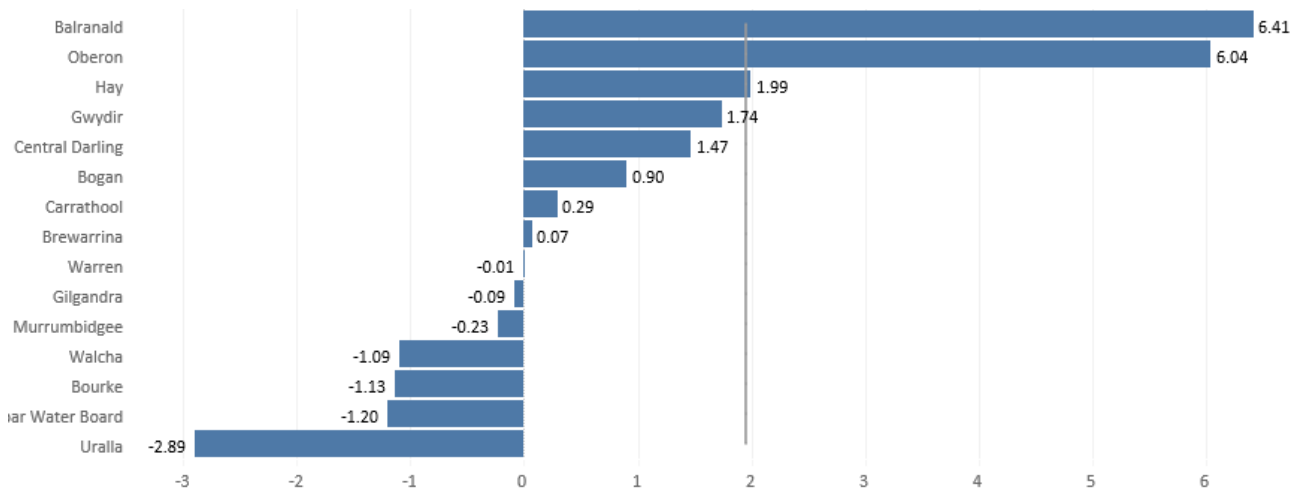
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Uralla also has one of the lowest operating cost (OMA) (\$/prop) in the grouping of less than 1,500 properties, as seen in the graph below.



Graph 8 – Operating Cost (OMA) (\$/prop) - WS (including water purchase)

As a consequence of the low revenue and the normal operating costs, Uralla has the worst economic real rate of return for water supplies in the less than 1,500 properties as shown in the graph below.



Graph 9 - Economic Real Rate of Return - Water Supply

The Solution

The option to continue with budgeted operating losses is not only unsustainable but also contrary to the principles of sound financial management set out in the Local Government Act 1993 (clause 8).

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This report sets out a series of actions aimed at returning the Water Fund to an operating surplus over the life of the draft LTFP. These include adjusting pricing more towards a usage basis and to adjust access charges as required.

The average shortfall in revenue in the draft LTFP is \$417,000. It is proposed that Council introduce a charge per connection rather than the current practice of charging per assessment. It is estimated that this will generate additional access charges of between \$16,000 and \$19,000. At the same time, it is proposed that Council introduce a variable charge for access based on connection size. It is estimated that this will generate an additional \$47,000 (conservative estimate).

In Uralla Shire, approximately 44% of water consumption is utilised by just over 15% of the consumer base. A recommendation of Water NSW's Best-Practice Management of Water Supply Guidelines suggests tiered pricing, and further that 50-75% of revenue be captured via water usage charges. As a result, most water authorities charge consumers for water usage on a tiered pricing basis. A summary of neighbouring or similar sized council's tiered pricing is included in attachment 1.

It is proposed that the Water Fund introduce tiered water pricing as follows:

- i. 0 to 250 kilolitres \$3.20 per kilolitre
- ii. Greater than 250 kilolitres \$6.80 per kilolitre

A review of historical usage data shows that approximately 85% of consumers (1,200 of the total 1,421 assessments) only use up to 250kL per year. The proposed increase in charges and the outcome of tiered pricing on revenue, based on various scenarios (a total of 1,421 assessments), is summarised below:

Options	Access Charge per annum	Consumption charge per kL per annum		Total Yield	Change in yield	Average annual charge per Assessment (not connection)	
		0-250 kL	>250 kL			\$	% increase
Current	\$359.00	\$2.60 kL for all usage		\$1,151,779	\$ -	\$769	
Option One	\$359.00	\$3.70	\$6.15	\$1,572,290	\$420,511	\$1,094	42%
Option Two	\$400.00	\$3.55	\$5.40	\$1,572,312	\$420,532	\$1,086	41%
Option Three	\$420.00	\$3.40	\$5.40	\$1,572,874	\$421,094	\$1,086	41%
Option Four (proposed option)	\$380.00	\$3.20	\$6.80	\$1,571,456	\$419,677	\$1,072	39%

The above analysis uses average consumption over five years from 2016 to 2020. Data from November 2020 would have had no significant impact because the readings were only slightly below the five year average. The years included both high and low rainfall/consumption data.

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As a consequence of the above proposed charges, the average annual bills are likely to be as follows:

Options	0 to 250 kL		Over 250 kL	
	\$	%	\$	%
Current	\$438		\$1,641	
Option One	\$784	79%	\$2,779	69%
Option Two	\$808	85%	\$2,600	58%
Option Three	\$810	85%	\$2,582	57%
Option Four (<i>proposed option</i>)	\$747	71%	\$2,833	73%

The proposals outlined above have been identified as the primary mechanisms to address the current funding shortfalls in the Water Fund. Other measures identified as having further positive impacts on the revenue deficit would include quarterly billing and a meter replacement program. A brief summary of each of these options is noted below:

- **Quarterly billing** – a recommendation of NSW Water’s Best Practice guidelines to improve effectiveness of pricing signals. It has the added advantage of allowing consumers to monitor their usage and to detect water leaks in a timely manner.
- **Meter Replacement** – old water meters may be a source of inaccurate readings, and may be more prone to failure leading to estimated readings. It is expected that the replacement of meters would increase accuracy and potentially increase recorded consumption and thus billing. Smart meters would provide real-time consumption data which would be of benefit to both the consumer and Council.

Specifically, the Best Practice Guidelines advise that LWUs should adopt the following pricing principles when setting water supply tariffs:

1. Appropriate water usage charge/kL based on the long-run marginal cost of water supply.
2. Residential water usage charges must be set to recover at least 75% of residential revenue
3. To encourage water conservation, high water consuming residential customers should be subjected to a step price increase of at least 50% for incremental usage above a specified threshold. This threshold should not exceed 450 kL/per household or 600 kL/for LWUs outside the DWE Coastal and Tablelands Zone.
4. LWUs must bill at least three times each year (and preferably every quarter) to improve the effectiveness of pricing signals.
5. LWUs should include both water access charges and water usage charges in each bill to customers. In addition, any LWU planning to update its water billing system should move to comply with the National Guidelines on the layout and content of customer bills. The Guidelines have been prepared pursuant to Item 66(iv) of the National Water Initiative.

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6. In situations where large cross-subsidies for non-residential customers currently exist, LWUs should develop pricing strategies that target the removal of these cross-subsidies over a 5 year period.

Other Issues

Capital Expenditure

The capital expenditure program included within the draft LTFP is based upon information contained in a draft Asset Management Plan prepared by Morrison and Low. That estimated expenditure is summarised below.

\$'000	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Capex	503	503	515	507	520	533	546	559	573	587

Dirty Water

Currently Council is not aware of a dirty water problem with Council's water supply. The town reticulation does experience discoloured water events during periods of increased iron and manganese presence in the water supply. Additional and improved treatment processes recently implemented at the Uralla Water Treatment plant will lower the levels of iron and manganese in the town supply. The rates and types of discolouration currently experienced are within normal bounds for town surface water supplies.

Replacement of pipework will not improve the frequency of discoloration events the town experiences. However, new flushing practices have been introduced which are expected to reduce the frequency of any such events in the future.

KEY ISSUES

- The Water Fund is budgeted to incur losses in each of the next ten years.
- The water service is being operated efficiently (staffing and operating costs are at or below others in the group of less than 1,500 properties).
- The draft Asset Management Plan (Water) provisions for capital renewal and maintenance.
- An increase in revenue is considered the most appropriate way to balance the operating result.
- Tiered water pricing together with appropriate increases to the current annual access charge is considered the most appropriate way to achieve the required revenue.
- The recommended fees and charges meet best practice management.

COUNCIL IMPLICATIONS

1. Community Engagement/ Communication (per engagement strategy)

An engagement strategy is to be drafted to inform the community of this change in pricing.

2. Policy and Regulation

NSW Department of Planning, Industry and Environment Best Practice Management of Water Supply and Sewerage Guidelines

3. Financial (LTFP)

The introduction of tiered pricing of water will result in a balanced operating result for the Water Fund whilst also impacting negatively on the General Fund.

4. Asset Management (AMS)

The LTFP estimates that approximately \$500,000 per annum of renewals/improvements will be needed over the next ten years. Without additional revenue, these costs will have to be completed using borrowed funds which is not the most appropriate way to fund renewals.

5. Workforce (WMS)

N/A

6. Legal and Risk Management

Local Government Act 1993

8B Principles of sound financial management

The following principles of sound financial management apply to councils--

(a) Council spending should be responsible and sustainable, aligning general revenue and expenses.

(b) Councils should invest in responsible and sustainable infrastructure for the benefit of the local community...

(d) Councils should have regard to achieving intergenerational equity, including ensuring the following--

(i) policy decisions are made after considering their financial effects on future generations,

(ii) the current generation funds the cost of its services.

59A Ownership of water supply, sewerage and stormwater drainage works

(1) Subject to this Division, a council is the owner of all works of water supply, sewerage and stormwater drainage installed in or on land by the council (whether or not the land is owned by the council).

(2) A council may operate, repair, replace, maintain, remove, extend, expand, connect, disconnect, improve or do any other things that are necessary or appropriate to any of its works to ensure that, in the opinion of the council, the works are used in an efficient manner for the purposes for which the works were installed.

Comment

The introduction of tiered pricing will result in a balanced operating result and overcome the risk of a financially unsustainable business.

7. Performance Measures

Tiered water pricing and a balanced operating result aligns with best practice recommendations.

8. Project Management

N/A

Notes:

1. NSW Department of Planning, Industry and Environment, Interaction with IPR, S60, S61 and LWU Operations. <https://www.industry.nsw.gov.au/water/water-utilities/best-practice-mgmt/ipr-lwu-operations>
2. The weighted median is the median of the available validated data for the indicator with the number of connected properties applied as weights.

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Attachment 1

Council	Availability Charge		Consumption Charge	
	Description	\$ p.a.	Description	\$/kL
Blayney Council	<i>Connection size</i>			
	20mm	244.00	Residential	3.28
	25mm	282.00	Non-residential	3.28
	32mm	625.00		
	40mm	976.00		
	50mm	1,520.00		
	80mm	3,904.00		
Armidale Regional	Water Access Charge	250.00	0-100 kL per quarter	4.20
			101-250 kL per quarter	4.30
			>250 kL per quarter	4.60
	Note this is charged per assessment for single occupancy and per flat or unit for multiple occupancy			
Walcha Council	<i>Connection size</i>			
	20mm	307.00	0-300 kL	3.21
	25mm	542.40	>300 kL	4.68

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	32mm	888.60		
	38mm	1,253.00		
	50mm	2,169.40		
	75mm	4,881.00		
	100mm	8,677.40		
Tenterfield Shire Council	All assessments	77.00		5.90
	PLUS		Residential <450 kL pa	8.85
	Residential availability	512.00	Residential >450 kL pa	
	Residential (Strata)	384.00		
	Non-residential availability (20mm-32mm)	512.00	Non-residential <800 kL pa	4.35
	Non-residential availability 40mm	769.00	Non-residential >800 kL pa	6.60
	Non-residential availability 50mm	1,200.00		
	Non-residential availability 80mm	3,080.00		
	Non-residential availability 100mm	4,810.00		
Tamworth Regional Council			<i>Residential</i>	
	Units (strata or non-strata) - per unit	185.00	0-400 kL pa	1.61
	<i>Connection size</i>		401-800 kL pa	2.42

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20mm	283.00	> 800 kL pa	3.63
25mm	444.00		
32mm	732.00	<i>Non-residential</i>	
40mm	1,145.00	0-400 kL pa	1.61
50mm	1,790.00	401-800 kL pa	1.77
75mm	4,577.00	> 800 kL pa	1.95
100mm	7,151.00		

Summary of neighbouring or similar sized council's tiered pricing

10. MOTIONS ON NOTICE

There are no Motion of Notice Items

11. CONFIDENTIAL BUSINESS

There are no Confidential Business Items.

END OF BUSINESS PAPER