

Minutes

of a Special Meeting
held at 7.00pm

14 November 2011

Note:
Minutes subject to confirmation at
a meeting of the Council to be held on
21 November 2011

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Minutes of a special meeting of the Central Coast Council held in the Council Chamber at the Administration Centre, 19 King Edward Street, Ulverstone on Monday, 14 November 2011 commencing at 7.00pm.

Councillors attendance

Cr Jan Bonde (Mayor)
Cr John Bloomfield
Cr Shane Broad
Cr Amanda Diprose
Cr Gerry Howard
Cr Tony van Rooyen

Cr Cheryl Fuller (Deputy Mayor)
Cr Lionel Bonde
Cr Garry Carpenter
Cr Kath Downie
Cr Rowen Tongs
Cr Philip Viney

Employees attendance

General Manager (Ms Sandra Ayton)
Director Corporate & Community Services (Mr Cor Vander Vlist)
Director Development & Regulatory Services (Mr Michael Stretton)
Director Engineering Services (Mr Bevin Eberhardt)
Executive Services Officer (Miss Lisa Mackrill)

Media attendance

The Advocate newspaper.

Public attendance

One member of the public attended during the course of the meeting.

Prayer

The meeting opened in prayer.

MAYOR'S COMMUNICATIONS

335/2011 Authority for special meeting

The Mayor reported as follows:

“This special meeting of the Council has been convened at my direction. Only the items on the agenda may be discussed.”

- Cr Howard moved and Cr Viney seconded, “That the Mayor's report be received.”

Carried unanimously

336/2011 Pecuniary interest declarations

The Mayor reported as follows:

“Councillors are requested to indicate whether they have, or are likely to have, a pecuniary interest in any item on the agenda.”

The Executive Services Officer reported as follows:

“The *Local Government Act 1993* provides that a councillor must not participate at any meeting of a council in any discussion, nor vote on any matter, in respect of which the councillor has an interest or is aware or ought to be aware that a close associate has an interest.

Councillors are invited at this time to declare any interest they have on matters to be discussed at this meeting. If a declaration is impractical at this time, it is to be noted that a councillor must declare any interest in a matter before any discussion on that matter commences.

All interests declared will be recorded in the minutes at the commencement of the matter to which they relate.”

No interests were declared at this time.

DEPARTMENTAL BUSINESS

GENERAL MANAGEMENT

337/2011 Water and Sewerage Reform

The General Manager reported as follows:

“PURPOSE

The purpose of this report is to discuss the reform of the four Water and Sewerage Corporations.

BACKGROUND

The following background information is as received from the Water and Sewerage Working Group established at the Local Government Association of Tasmania (LGAT) General Meeting held at Brighton on Wednesday, 21 September. A copy of the Water Corporations Chairman’s presentation to the LGAT has been forwarded to elected members under separate cover.

‘1. Background

The Chairman of the water and sewerage corporations made a presentation to the Association’s General Meeting on Wednesday, 21 September 2011 detailing the pressures for and implications of moving to a single corporation.

As a consequence of the presentation and the debate that followed, a motion was passed at the meeting that:

A working group be formed to collate major issues and options related to the proposal for a single water and sewerage corporation

A document be prepared to assist councils in their consideration

A joint press release be issued by the President of the Association and the Chairman of the corporations outlining the above.

The meeting determined that it was essential for all councils to consider the consolidation proposal as a matter of urgency with the need to seek a formal position via a special meeting of the Association at the earliest opportunity.

In order to provide all councils with a common basis upon which to consider this important matter, the working group has developed this document to assist those considerations.

Convened by the CEO of the Association, the working group comprises the Mayors of Central Coast, West Tamar, Kingborough and Brighton Councils with the Chairman of the water and sewerage corporations being an ex-officio member.

(a) *Water and Sewerage Reform*

The initial round of water and sewerage reform saw the establishment of three operational regional corporations and a support organization that provided common services to the operational corporations.

Ownership was maintained by Local Government despite an initial indication by the State Government that a State Government owned single entity was preferred.

Separate boards were established for each of the four entities. A common chair was appointed for the four entities with a further three common directors appointed to the operational corporations. This representation was supplemented by two further regional directors on each of the operational entities. In addition to the common chair, the board of the common services corporation was comprised of the CEO's of each of the regional organizations. This membership was later supplemented by two independent directors.

The Board is appointed on a skills basis with the chair required to be independent and the three common directors to possess particular attributes from a broad suite of skills outlined in the legislation.

A Selection Committee comprising the Chairman of the Board, the Secretary of the Department of Treasury and Finance and two other persons, one with expertise in governance and the other with expertise in water and sewerage, is responsible for the identification of suitable candidates for appointment to the Board.

The actual decision on the candidates rests with the owners representatives, three each of whom are appointed by the owner councils from each region. The nine owners' representatives are collectively responsible for the choice in relation to the Chair and common directors with the regional directors chosen by the three owners' representatives from the respective regions.

The owners' representatives have a range of roles under the legislation but effectively operate as the nominated conduits between the Boards and the

owner councils with certain obligations in relation to approvals and endorsements of particular instruments and plans under the legislation.

Other key aspects of the reform arrangements were that owner councils largely maintain their revenue levels previously received from water and sewerage for a prescribed period before moving to distributions based on equity and infrastructure growth and that owner councils receive the normal tax equivalents and guarantee fees that a GBE would similarly be required to pay to its State Government owner.

(b) House of Assembly Select Committee

The House of Assembly Select Committee Review into Water and Sewerage was initiated by the Liberal Party and agreed by the State Government at a time when there was significant public outcry regarding pricing. The interim recommendations of the Select Committee proposed that the relevant parties, being owner councils, the corporations and the State Government come together to resolve the pricing issue. A Special Meeting of the Association was conducted with the Chair of the water corporations in attendance and resulted in a proposal to redress the State Government's enforced 5% price cap on pricing and move more quickly to an equitable pricing arrangement. Legislation was introduced into Parliament to allow this to occur in the current financial year.

The key representations to the Select committee by Local Government and the owner councils revolved around changes to governance arrangements and a streamlined structure.

The proposed governance changes related to abandoning the owners' representatives concept and moving to each council having a direct representative that could interface with the corporations; owner councils appointing board members rather than the Selection Committee being involved and the discontinuation of common directors.

Structurally, the three operating entities would be maintained but the common services corporation, Onstream would be collapsed with the operating entities being separately responsible for the provision of those services previously provided by Onstream.

Current Position

While indications from the Chair of the Select Committee were that the committee's report would not be forthcoming until April 2012, recent discussions have confirmed that the Select Committee will reconvene with a view to finalizing its report in the next few months. The Liberal Party has

indicated its clear statement of intention to collapse the current four organizations into a single entity. The Labor Party has reiterated its initial position, that it always supported the notion of one entity for the state. It is clear, therefore, that water and sewerage would undoubtedly become an election issue if no action is taken.

2. Options for Owner Councils

Three scenarios are available to owner councils in the face of the positions taken by the major parties, the continuing unrest from key lobby groups and the vocal discontent of customers.

(a) Do Nothing

The corporations are still finding their way only having been in existence for just over two years. Pricing structures have now changed which will flatten some pricing for residential customers and moves have been made to save costs associated with Onstream.

However, in the face of the positions now taken by the two major parties, the option of doing nothing merely provides the opportunity for somebody to do something on terms suitable to them rather than owner councils.

(b) Build the case to support the status quo

The initial proposition of establishing three regional corporations was to ensure a smooth transition and to ensure that the investment in infrastructure at the local level was not subsumed elsewhere and that returns on that infrastructure were re-invested back into the local community.

While this remains a sound philosophical position, the loud calls for a single entity, the pricing pressures on customers and the claims through the Select Committee of substantial savings being possible by moving to a single entity all point to a significant challenge in maintaining the initially held position.

(c) Propose a single corporation on terms acceptable to owner councils

Rather than have a position dictated to Local Government on the characteristics and attributes of a single entity, there is an opportunity to establish a process that seeks to progress the establishment of a single corporation on terms that meet the requirements of owner councils. While legislative change would be required to ultimately allow for this transition and it would need to be supported by the State Government and the Parliament, initial considerations by Local Government could progress and shape the final outcome markedly. While some negotiations may be required at the

margins, there is no reason why such a process could not deliver Local Government the majority of its requirements.

3. A Single Corporation – The Issues

(a) *Financials*

Concerns have been expressed that the collapsing of regional corporations into a single statewide entity would result in significant cross subsidies with customers in one area being required to foot the bill for infrastructure in another. The analysis undertaken by the corporations on a forecast basis over the next 10 years suggests the contrary.

The table below shows the key financial metrics for the period ending 2021 and demonstrates that the relativities of the net profit after tax, distributions, equity are in line with the size of the present regional entities. Returns on equity, gearing and interest cover further show that there is little, if any, difference between the three entities highlighting the lack of cross subsidy.

Key Financial Metrics – FY21

	SW	BLW	CMW	Total
NPAT	32M	16.7M	14.2M	62.9M
	50.9%	26.5%	22.6%	
Distributions	32.6	16.4	14.6M	63.6M
	51.3%	25.8%	22.9%	
Equity	988M	542M	386M	1,916M
	51.5%	28.3%	20.2%	
ROE	4.11%	4.41%	5.24%	
Gearing	30%	26%	31%	
Interest Cover	3.3	3.6	3.5	

The following chart shows that residential tariffs also come together across the regions by 2015. The starting point in the north and north west was a lower average tariff. However, there is a general requirement that prices are to be cost reflective with a determined margin (3% for current assets and 6.3% for new assets). The figures presented below are for demonstration purposes and reflect current targets of the corporations. It is reasonable to assume that these pricing structures could alter significantly under a new entity.

Residential Tariffs

	SW	BLW	CMW
FY11 average	\$ 770	\$ 645	\$ 675
FY12 Forecast	\$ 836	\$ 758	\$ 772
FY13 Target	\$ 942	\$ 949	\$ 978
FY14 Target	\$ 992	\$ 1000	\$ 1037
FY15 Target	\$ 1046	\$ 1055	\$ 1099
% Uplift FY11-15	36%	64%	63%

Total expenses of the corporations are presently \$216 million. After deducting the non-discretionary expenses associated with depreciation, interest and materials, the combined discretionary spend is \$101million.

A low case scenario would see savings of 3% or \$3 million while a high case scenario would see a 5% or \$5 million saving in 2012. This accords with the estimates of the Select Committee. This is additional to the \$2.3 million already proposed to be saved from the announced Onstream restructure. These funds would be available for either distribution to council owners or customers or a combination of the two.

Examples of where these savings are possible include the significant duplication in the regulatory compliance activities and the potential to reduce outsourcing costs by developing internal skills sets that can be achieved through scale considerations.

With regard to the effect on dividends, if an assumption is made that a conservative saving of \$3 million per annum is possible from the restructure and a best case of \$5million is possible, then the effect of translating these out a decade and converting to 2021 dollars would see a low scenario of \$4.1 million per annum and a high of \$6.8 million per annum. The following table demonstrates the effect of these scenarios.

**Financials – Effect on Dividends Single Corporation
(FY21 Savings: Low \$4.1m, High \$6.8m)**

	SW	BLW	CMW		Merged
Low Case					
Standalone	15.9	7.8	7.1		30.8
Merged	17.5	9.4	8.0		34.9
	50%	27%	23%		+13%
High Case					
Standalone	15.9	7.8	7.1		30.8
Merged	18.8	10.1	8.7		37.6
	50%	27%	23%		+22%

In terms of the effect on distributions, using the same assumptions as outlined above and converting to 2021 dollars, the following table illustrates the positive benefit of moving to a single entity.

**Financials – Effect on Distributions Single Corporation
(FY21 Savings: Low \$4.1m, High \$6.8m)**

	SW	BLW	CMW		Merged
Low Case					
Standalone	32.6	16.4	14.6		63.6
Merged	33.9	18.3	15.6		67.7
	50%	27%	23%		+7%
High Case					
Standalone	32.6	16.4	14.6		63.6
Merged	35.2	19.0	16.2		70.4
	50%	27%	23%		+11%

(b) *Governance*

Three matters arise under this heading – council representation, communications and board appointments.

(i) Council Representation and Communication

The interface between councils and the regional corporations has been a significant issue and was highlighted as a major area of discontent both in the establishment of the corporations and, more recently, in evidence provided to the Select Committee. The existing arrangements seek to replicate the governance arrangements existing for GBE's where a designated Minister is declared the owner's representative. This works at the State Government level due to the single owner arrangement but has not translated effectively to the multiple owner model for water and sewerage.

The present situation has council appointing three owners representatives to act as the conduit between them and the corporations on a regional basis. This has proven to be less than satisfactory for councils in terms of their ability to have a productive working relationship with the corporations and to impact on the strategic planning and decisions of the corporations.

The proposal under the single entity proposal would be to have a single representative for each council replacing the present owners' representatives.

This arrangement would likely see a full meeting of council representatives twice a year to approve the corporate plan and to approve accounts and the dividend.

While a range of possibilities could be considered, a minimum requirement could be for the Chair and the CEO to meet with representatives in each region on a quarterly basis. This would seek to ensure that there is a strong dialogue about priorities, issues and developments that can assist council understanding and corporation knowledge.

(ii) Board Appointments

The current operating arrangements relating to board appointments and the composition of the selection committee are detailed in the earlier part of the paper relating to water and sewerage reform.

The proposal for the single entity would have councils taking control of the process of selection rather than having an external selection committee presenting recommended personnel. A selection committee would still be required but would comprise members from the 29 council representatives – 2 from the south and 1 each from the north and north west – based on the relative size of the corporations.

The selection committee would appoint the board and chairman. The Board would comprise 6 members, be skills based and would comprise a minimum of 2 from the south and one each from the other two regions.

These proposals demand certain procedural requirements in relation to activating selection, replacing board members, etc. It may be appropriate that LGAT, on behalf of owner councils, manages this process under a single entity arrangement. This will ensure that there is an administrative mechanism to effect these requirements as and when they arise.

(c) *Capital Expenditure*

The 10 year capital expenditure plans will see \$600 million spent in the south, \$340 million spent in the north and \$300 million in the north-west.

The majority of the spend relates to regulatory requirements associated with waste water treatment plants. There is little discretion in this process with no single region being able to benefit at the expense of the other.

Of course new works and renewals are factored into these spends but it must be noted that there is limited capacity for increasing levels of significant major works over the next 10 years.

Further it would be possible to include in the Shareholders' Letter of Expectation a requirement that the ratio of spend in each region is maintained.

(d) *Equity Arrangements*

Equity arrangements would be expected to transfer to the new corporations in the proportions that they presently exist.

(e) *Employment*

It is not expected that with the integration of the corporations into a single entity that there would be any significant shifts in employment between regions.

It is important to note that the nature of the operations of the infrastructure of the water and sewerage corporations requires staff at the coal face.

However it may be possible to include in the Shareholders Letter of Expectation that ro rata regional employment levels to be maintained.

Further it may be possible that some guidance be provided in regards an expectation that an appropriate level of intellectual capital and capacity needs to be maintained in each region.

(f) *Legislation*

There are a range of technical and procedural requirements under the present legislative arrangements that will require review, detailed consideration and amendment. While the initial development of the legislation was a protracted and daunting task, without seeking to downplay the effort required for these new arrangements, it is not envisaged that there is too much complexity involved in shifting to a single entity. Importantly, the legislation must be on terms acceptable to Local Government. This relates particularly to the governance models detailed in the preceding pages.

(g) *Timing*

The preferred commencement date for a new single entity would be 1 July 2012. There is already significant uncertainty within the corporations and a clear and decisive timeline would aid surety and provide a clear direction. This timeline, although very tight, would take the structural reform issue of the election agenda and would focus attention on addressing the outstanding matters detailed above. It will require significant effort to bring about the legislative changes, appointment of a new board and Chief Executive Officer but it is achievable.

4. Conclusion

Given the publicly stated position of the Liberal Party and the original position of the State Government relating to a single entity, there is a strong potential for water and sewerage to become an election issue. This would be particularly unhelpful and potentially damaging ensuring that everybody except Local Government would have a say and view on any future structure and operation of the entities.

There is significant community support for a single entity. The premise of greater efficiency leading to reduced pressure on water and sewerage prices is the key driver in this thinking.

There are significant savings to be achieved in moving to a single corporation which could provide increased returns to owners and/or slowing price increases for customers.

At a broader investment level, the finalization of reform and the elimination of the ongoing debate and uncertainty will provide a sounder and more confident investment base for the state.

The present governance arrangements, both in terms of board appointments and council representatives will not be diminished but enhanced by moving to a single corporation.

Councils have the opportunity to now lead the debate rather than have another level of government make changes on its behalf.

Recommendation

That Council supports moving to a single water and sewerage corporation

That Council supports progressing with the necessary legislation to enable creation of the new corporation by 1 July 2012. The detail of this legislation must be acceptable to and be endorsed by Local Government

That Council endorses the management of this process by the working group established at the September General Meeting of the Association.'

DISCUSSION

The Council, at a workshop held on 18 October 2011, discussed the information received from the LGAT Working Group.

The outcome from the Councillor workshop was that before any decision could be made the following matters need to be addressed:

- . More detail on savings.
- . Dividend and equity distribution (statewide or regional distribution) and the effects on the Central Coast community.
- . How do we ensure the region gets its share of capital/maintenance works if it goes to a statewide model?

- . Would like more information on different governance models as there may be other models other than a single corporation which could bring similar savings.
- . Refining of the current governance model to allow for more owner representation from the Councils.

The Council has also received a letter from Miles Hampton, Chairman of the Tasmanian Water and Sewerage Corporations advising as follows:

'A number of Councils have indicated to me that they would like some independent assurance of the financials of a proposed single Tasmanian Water and Sewerage Corporation.

I write to advise that in response to that request, Deloitte have been appointed to review our analysis and the underlying assumptions.

In particular I have asked that Deloitte address the following questions:

1. To provide an assessment of the reasonableness of the assumptions underlying the forecast savings.
2. To provide an assessment of the reasonableness of the proposed basis of equity entitlements to Councils.

When the Deloitte report is available, it will be provided to all Councils.'

That response has not been furnished at this time.

CONSULTATION

The Chairman of the Tasmanian Water and Sewerage Corporations provided a briefing at the LGAT General Meeting on 21 September 2011 and three regional briefings for all councillors to have the opportunity to be informed of the information provided at the LGAT meeting as well as a councillor workshop on 18 October 2011. The Mayors and General Managers within the region have also met to canvass the issues around the reform process as outlined.

IMPACT ON RESOURCES

There has been no impact on resources outside of Councillor and staff time in addressing this issue.

CORPORATE COMPLIANCE

The Central Coast Strategic Plan 2009–2014 includes the following strategies and key actions:

Council Sustainability and Governance

- . Improve corporate governance
- . Improve service provision
- . Improve the Council's financial capacity to sustainably meet community expectations
- . Effective communication and engagement
- . Strengthen local–regional connections.

CONCLUSION

The Council has the option of supporting the recommendation of the LGAT Working Group; or to defer a decision regarding the future structure of the Tasmanian Water and Sewerage Corporations until further detail into the savings and equity and dividend distributions as outlined in the Chairman's letter is received and also that further investigations are undertaken into different models which could bring about similar savings to those proposed by the Chairman."

- Cr van Rooyen moved and Cr (L) Bonde seconded, "That the Council defers a decision regarding the future structure of the Tasmanian Water and Sewerage Corporations until further detail into the savings and equity and dividend distributions as outlined in the Chairman's letter is received and also that further investigations are undertaken into different models which could bring about similar savings to those proposed by the Chairman; and

That the Council continues to work with the Cradle Coast councils to analyse the business case of possible models for future consideration."

Carried unanimously

CORPORATE & COMMUNITY SERVICES

338/2011 Application by the Ulverstone Surf Life Saving Club Inc. for loan extension

The Director Corporate & Community Services reported as follows:

"PURPOSE

The purpose of this report is to consider an extension of \$25,000 to the Ulverstone Surf Life Saving Club Inc. existing loan to undertake upgrade and refurbishment works.

BACKGROUND

The Ulverstone Surf Life Saving Club Inc. (the Club) has written to the Council as follows:

'In relation to our discussion re loan extension could you consider the following?

The Surf Club is undertaking a major upgrade of the building in response to funding received from the State Government being overseen by Surf Life Saving Tasmania. The amount of funding is \$190,000.

To this end the club's Building Committee has overseen the upgrade. During the process we have identified further areas for upgrade that would increase the cost by approximately \$25,000.

We were faced with 3 options

- | | |
|----------|--------------------------------|
| Option 1 | Seek further funding from SLST |
| Option 2 | Complete the works ourselves |
| Option 3 | Do nothing |

We have approached SLST in relation to Option 1 and at present their terms of reference re funding for this programme precludes them from offering any more funds.

Option 2 will only work if we can access further funds. This would necessarily involve us seeking money in the form of an extension of our loan through the Central Coast Council (refinanced in 2006).

Option 3 is not an option given the vast improvement made to the clubhouse. Ie the job is not complete.

At our Management Committee Meeting of Sept 13

The following motion was put

The Committee also approves an immediate approach to the Central Coast Council to extend the USLSC current loan by \$25,000. If the Grant from State Centre is approved the application for a loan extension with CCC will be withdrawn...

That the club seeks an extension of it's current loan from the CCC...by \$25,000 along the lines of repayments already undertaken by the club at a rate that is to be determined by the council.

Granting this request will allow the club to complete building works identified in Capital Works Program.'

DISCUSSION

The works the Club are undertaking of which additional loan funds are required include improvements to the boat shed and the downstairs toilets and amenities. The Council has issued a planning permit for the proposed works to the toilet block, however, at this stage a building permit application or notification of minor works are yet to be received for the planned improvements.

The Club has previously had a good record in repaying its commitments to the Council and other creditors and following perusal of the financial statements it appears that they should be able to meet the commitments for the repayment of the loan.

The Club has been making loan repayments over a period of 13 years in respect to their previous loan and over four years on their current loan commitment with the Council. The Club currently has principal outstanding of \$18,115.94 from a loan of \$41,663.72.

The Council has the ability to source a loan for \$25,000 within its current borrowing limits on behalf of the Ulverstone Surf Life Saving Club Inc. Interest rates would be sourced from various financial institutions at the time of the drawing down of the loan to ensure that the most competitive rate was received.

CONSULTATION

Consultation is not applicable in respect of this report.

IMPACT ON RESOURCES

There would be no impact on resources outside of the Council securing a loan and finalising a loan agreement with the Club.

CORPORATE COMPLIANCE

The Central Coast Strategic Plan 2009–2014 includes the following strategies and key actions:

A Connected Central Coast

- Improve community wellbeing

The Environment and Sustainable Infrastructure

- Develop and manage sustainable infrastructure.

The Central Coast Strategic Plan 2009–2014 includes the following strategies and key actions:

CONCLUSION

It is recommended that approval be granted for the General Manager to negotiate a loan for the refurbishment works at the Ulverstone Surf Life Saving Club, with the total payable amount of principal and interest being met by the Club.”

- Cr Carpenter moved and Cr Viney seconded, “That approval is granted for the General Manager to negotiate a loan for the refurbishment works at the Ulverstone Surf Life Saving Club, with the total payable amount of principal and interest being met by the Club.”

Carried unanimously

Closure

There being no further business, the Mayor declared the meeting closed at 7.32pm.

CONFIRMED THIS 21ST DAY OF NOVEMBER, 2011.

Chairperson

(Imm:ajr)

QUALIFIED PERSON'S ADVICE

The *Local Government Act 1993* provides (in part) as follows:

- . A general manager must ensure that any advice, information or recommendation given to the council is given by a person who has the qualifications or experience necessary to give such advice, information or recommendation.
- . A council is not to decide on any matter which requires the advice of a qualified person without considering such advice unless the general manager certifies in writing that such advice was obtained and taken into account in providing general advice to the council.

I therefore certify that with respect to all advice, information or recommendation provided to the Council within these minutes:

- (i) the advice, information or recommendation was given by a person who has the qualifications or experience necessary to give such advice, information or recommendation; and
- (ii) where any advice was directly given by a person who did not have the required qualifications or experience that person has obtained and taken into account in that person's general advice the advice from an appropriately qualified or experienced person.

Sandra Ayton
GENERAL MANAGER