

Review of water and sewerage sector returns

Discussion Paper – DP14-02

February 2014

Contents

Review Background..... 3

Water and Sewerage returns 4

Submissions and timeframes..... 7



Review Background

The State Grants Commission is an independent statutory body responsible for recommending the distribution of Australian Government and State Government funds to Tasmanian local government authorities. To ensure that the distribution of available funds is as equitable and contemporary as possible, the Commission continually monitors council practices and updates assessment methods and data where appropriate.

To provide some structure to updating the distribution methods of the Australian Government Financial Assistance Grants (FAGs), the Commission operates a triennial review policy whereby major method changes are introduced only every three years, with data updates and minor changes applied every year.

Overview of Triennial Review Period (FAGs)

Distribution	Action
2012-13	Method Changes + Data Updates
2013-14	Data Updates
2014-15	Data Updates
2015-16	Method Changes + Data Updates

The Commission's triennial review period to 2012-13 primarily focused on the Commission's Roads Preservation Model (used to calculate the Commission's Road Grant recommendations) and a review of the Regional Responsibility Cost Adjustor in the Commission's Base Grant Model (BGM).

The Commission wishes to discuss with councils whether the water and sewerage sector's move to equity based distributions, commencing from 2013-14, warrants a review of the Commission's distribution of such revenue within the Base Grant model.

The Commission will ultimately make decisions regarding the outcome of discussions and submissions based on matters of principle rather than impact on any specific council or councils.

Water and Sewerage returns

1. History

Since the establishment of the water and sewerage corporations, Ben Lomond Water, Cradle Mountain Water and Southern Water, the distribution of returns¹ to councils have been subject to the Priority Dividend Order made by the then Treasurer. The Priority Dividend Order was effective for five years, from the then three water and sewerage corporations' establishment on 1 July 2009 and expiring on 30 June 2013.

On 1 July 2013, the three water and sewerage corporations became a single Statewide water and sewerage corporation, TasWater. At the same time, the distributions from the now sole water corporation, ceased to be subject to the Priority Dividend arrangements. The distribution of returns from TasWater to its owner councils is now based on equity interests of its owner councils in the water and sewerage corporation. All councils have an interest in TasWater as detailed in Table I.

2. Treatment of returns from water and sewerage corporations in the Base Grant Model

The Base Grant Pool has a Minimum Grant portion (being 30% of the pool allocated across all councils based on per capita share) and a Relative Needs portion, which is distributed based on relative needs of councils. Returns received from the former three water and sewerage corporations by councils are treated by inclusion as Other Financial Support which is a component in determining each council's revenue capacity in the Base Grants Model.

The Commission's Base Grant Model uses the most recent three years data to calculate the average of Assessed Revenues, Other Financial Support and Minimum Grants, in order to determine each council's revenue capacity, assessed surplus or deficit and thus each councils' respective entitlement to a share of the relative needs portion of the Base Grant pool.

The 2013-14 Base Grants distribution was based on an average of Other Financial Support received by councils for the financial years 2009-10, 2010-11 and 2011-12 data. In the absence

¹ The term "returns" includes dividends, income tax equivalents and government guarantee fees.

of better information, the Commission uses historical data in the Base Grants Model as a proxy indicator of council circumstances. A three year average has been adopted throughout the model to soften the effect of any fluctuations which also supports councils' preference for grant stability.

Table 1: Equity Interests in TasWater

Council	Region	Equity %
Break O'Day	North	1.94%
Brighton	South	3.08%
Burnie	North West	4.14%
Central Coast	North West	4.77%
Central Highlands	South	0.51%
Circular Head	North West	1.58%
Clarence	South	11.06%
Derwent Valley	South	1.36%
Devonport	North West	5.46%
Dorset	North	0.97%
Flinders	North	0.18%
George Town	North	1.13%
Glamorgan Spring Bay	South	2.07%
Glenorchy	South	10.86%
Hobart	South	10.86%
Huon Valley	South	2.12%
Kentish	North West	0.44%
Kingborough	South	6.16%
King Island	North West	0.33%
Latrobe	North West	1.91%
Launceston City	North	13.62%
Meander Valley	North	2.78%
Northern Midlands	North	2.34%
Sorell	South	1.62%
Southern Midlands	South	0.76%
Tasman	South	0.05%
Waratah Wynyard	North West	2.81%
West Coast	North West	1.81%
West Tamar	North	3.28%
		100.00%

3. Move to equity distributions

The distribution of dividends from the water and sewerage sector to councils has reached the point in time where the payment of transitional priority and residual dividends has ceased and are being replaced by the longer term arrangement of equity based dividends.

TasWater has provided the Commission with details of both the historical cash distributions made to councils by the three former water and sewerage corporations as well as TasWater's forecasted cash distributions to 2013-14 and 2014-15. These are detailed in Appendix I.

4. Issues for consideration

The Commission seeks to discuss with councils the principle of whether the Commission should:

- continue to use the actual revenue received by councils from the water and sewerage corporations for 2012-13 and single corporation for subsequent years to determine Other Financial Support as an indicator of revenue capacity. This would result in a gradual transition in the Base Grants Model to reflecting the new dividend arrangements;
- apply the new equity distribution proportions to the 2012-13 distribution total, thereby deeming a distribution for that year only based on the new equity interest proportions in TasWater; or
- back-cast the three prior year water and sewerage distributions from the water and sewerage corporations to reflect the new equity interest proportions councils have in TasWater. This would result in the three year average distributions from the water and sewerage corporations being fully recast to align with the new equity shares in TasWater. Recasting three years' distributions with therefore have an immediate effect on the Commission's assessment of each councils' Other Financial Support, revenue capacity, assessed surplus or deficit, and ultimately relative need assessment.

5. Points for discussion

1. *Should the Commission consider making any changes to the historical distributions from water and sewerage corporations to reflect the reforms to the water and sewerage sector on 1 July 2013?*
2. *Is there merit in the Commission deeming the water and sewerage corporation distribution for 2012-13 to align with the distribution to the new equity interest in TasWater?*
3. *If yes, is there also merit in the Commission backcasting prior year water and sewerage distributions to also reflect the new equity interest proportions?*

Submissions and timeframes

The Commission invites comments and input from councils on the issues raised within this discussion paper. However, council input need not be confined to the issues identified. Councils should feel free to provide comments on other pertinent issues regarding the Commission assessment methodologies.

Submissions should be forwarded to the Commission Secretary, Ms Pam Marriott as follows:

- By post: Secretary
State Grants Commission
GPO Box 147
HOBART TAS 7001
- By email: pam.marriott@treasury.tas.gov.au

Further details regarding the annual assessments can be found in the 2013-14 Annual Report that is available on the Commission website. Go to the Department of Treasury and Finance webpage (www.treasury.tas.gov.au) and click the State Grants Commission 'Quick Link', then click Publications.

Submissions close on Friday 14 March 2014.

Any queries should be directed to the Secretary on 6166 4274.

2014 Hearings and Visits

The Commission will provide councils with an opportunity to discuss this paper and any other concerns during the 2014 Hearings and Visits program that will begin in March 2014.

Appendices

APPENDIX I – water and sewerage sector returns to councils 2009-2015

Council	Region	Cash Payments				2013-14 Targeted Distribution			2014-15 targeted
		2009-10	2010-11	2011-12	2012-13	Priority Distributions to 13 Nov 2013	Equity Distribution	Targeted Total	Targeted Total
Break O'Day	North	850	122 346	132 858	3 598	0	387 263	387 263	582 000
Brighton	South	889 807	1 070 064	1 065 907	1 070 000	398 650	614 830	1 013 480	924 000
Burnie	North West	123 333	210 772	209 103	332 499	151 640	826 427	978 067	1 242 000
Central Coast	North West	0	0	0	0	0	952 187	952 187	1 431 000
Central Highlands	South	0	18	3 326	0	0	101 806	101 806	153 000
Circular Head	North West	313 027	534 958	530 718	843 912	384 876	315 400	700 276	474 000
Clarence	South	0	527	70 620	0	0	2 207 797	2 207 797	3 318 000
Derwent Valley	South	0	6	8 668	0	0	271 483	271 483	408 000
Devonport	North West	521 507	891 252	884 186	1 405 974	641 212	1 089 925	1 731 137	1 638 000
Dorset	North	725	104 333	67 045	1 816	0	193 631	193 631	291 000
Flinders	North	23 041	23 738	32 304	25 855	8 568	35 932	44 500	54 000
George Town	North	92 707	173 145	155 093	104 121	34 272	225 571	259 842	339 000
Glamorgan Spring Bay	South	0	43	13 305	0	0	413 213	413 213	621 000
Glenorchy	South	7 375 413	8 868 778	8 742 393	8 869 001	3 304 328	2 167 873	5 472 201	3 258 000
Hobart	South	1 743 024	2 096 323	2 119 031	2 095 999	780 908	2 167 873	2 948 781	3 258 000
Huon Valley	South	724 318	871 003	865 369	870 999	324 509	423 194	747 703	636 000
Kentish	North West	606	1 034	1 028	1 634	745	87 833	88 578	132 000
Kingborough	South	997 915	1 200 150	1 212 897	1 200 003	447 085	1 229 659	1 676 744	1 848 000
King Island	North West	25 151	42 984	42 642	67 808	30 924	65 875	96 799	99 000
Latrobe	North West	235 147	401 867	398 680	633 955	289 123	381 274	670 397	573 000
Launceston City	North	8 705	2 106 980	2 532 797	2 464 669	819 544	2 718 824	3 538 369	4 086 000
Meander Valley	North	508 541	615 398	615 743	567 327	188 868	554 944	743 811	834 000
Northern Midlands	North	1 241	178 582	159 712	4 326	0	467 111	467 111	702 000
Sorell	South	420 786	506 006	505 203	506 001	188 521	323 384	511 905	486 000
Southern Midlands	South	0	0	4 958	0	0	151 711	151 711	228 000
Tasman	South	0	0	322	0	0	9 981	9 981	15 000
Waratah Wynyard	North West	15 454	26 412	26 201	41 666	19 002	560 932	579 934	843 000
West Coast	North West	253 328	432 938	429 506	682 972	311 478	361 312	672 790	543 000
West Tamar	North	1 917 930	1 765 391	1 828 884	2 130 492	713 748	654 754	1 368 502	984 000
Total		16 192 556	22 245 049	22 658 498	23 924 627	9 038 000	19 962 000	29 000 000	30 000 000



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