

Gosford Water Supply Authority

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NSW Auditor-General's Report

Volume Two 2012

GOSFORD WATER SUPPLY
AUTHORITY

Audit Opinion

The audit of the Authority for the year ended 30 June 2011 resulted in a qualified audit opinion within the Independent Auditor's Report. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the fair value and recoverability of the Authority's investment portfolio of \$30.9 million.

Since July 2007, global financial markets have experienced a period of high volatility, which impacts the value, recoverability, liquidity, cash flows and rates of return of many financial assets. This market volatility impacted the Authority's investment portfolio. Many of its investments did not have market values that were independently quoted and were not widely traded.

The audit opinion for 2009–10 was similarly qualified.

Operational Snapshot

The Authority, with the Wyong Water Supply Authority, manages the urban water supply system on the Central Coast. It is the third largest urban water supply system in New South Wales after Sydney and Hunter. The system includes three dams, three weirs, three water treatment plants, 40 reservoirs and 1,900 kilometres of pipelines. It serves an urban population of approximately 300,000 people. It generated \$102 million in revenue (\$87.1 million in 2009-10) and made a surplus of \$34.8 million (\$19.4 million).

Performance Information

Operational Performance Indicators

Year ended 30 June	2011	2010	2009	2008
Average volume of water consumed (kilolitres) per residential property	148	146	140	135
Water quality complaints per 1,000 properties	9.3	38.9	25.3	94.3
Average frequency of unplanned water supply interruptions per 1,000 properties	200.0	239.0	203.4	181.0
Water main breaks per 100 km of water main	29.3	34.3	27.1	28.9
Water losses (kilolitres/water main kilometre/day)	3.7	3.0	1.8	1.4
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	42.0	40.0	29.7	35.4
Percentage of sewage treated to a secondary level	98.1	97.3	98.1	99.0

Source: National Water Commission 'National Performance Report 2010–11.

The Authority advised:

- the significant decrease in water quality complaints is due to the ongoing flushing program and the benefits from a capital upgrade program jointly funded by the Australian Government
- an increasing number of chokes is not necessarily a reflection of poor performance. Increases in proactive maintenance are likely to increase the number of chokes identified
- Gosford City Council is implementing a program to install additional area meters to allow more accurate measurement of water losses. Currently, meter reads are done over a six month period. The above fluctuation is due to measurement difficulties as well as water losses.

Other information

Central Coast Water Corporation

On 17 February 2011, Gosford City Council and Wyong Shire Council approved the Central Coast Water Corporation's (the Corporation) constitution and shareholders agreement. The new Corporation will be responsible for managing water, wastewater and drainage services (or parts thereof) to residents on the Central Coast subject to a cost benefit analysis (CBA). The CBA will provide advice to the Councils in relation to the optimal operating structure for the Corporation including the scope of services to be provided by the Corporation and optimal timing to minimise risk. The councils are expected to make a decision on the operating model for the Corporation in June 2012. The councils will continue to provide water, wastewater and drainage services until the services (or parts thereof) are transferred to the Corporation.

The establishment of the Corporation is expected to increase effectiveness in areas such as planning, environmental issues and drought management while maintaining benefits to the Central Coast community.

On 15 December 2011, the NSW Governor endorsed the appointment of five directors to the Corporation's Board. The Board is responsible for the governance of the Corporation and had its first official meeting in February 2012. The Board is comprised of three external Directors, including the Chairperson, and two Council (shareholder) representative Directors.

The Corporation will be subject to an Operating Licence regulated by the NSW Independent Pricing and Regulatory Tribunal. The Operating Licence will be issued following the transfer of the Councils' Water Supply Authority status to the Corporation and will regulate service levels.

Mardi-Mangrove Link System

The Mardi-Mangrove Link system was launched on 31 August 2011 and is operational. The Wyong Shire Council has taken over early use of the system enabling it to move from level two restrictions to Waterwise rules contributing to the total water storage levels being the highest in ten years.

A total of 5,500ML has been transferred to Mangrove Dam over the testing and commissioning phase. The system is currently transferring at near maximum capacity of 110ML/day.

Work started in March 2010. The original estimated cost was \$120 million and the target completion date was 30 June 2011. The revised estimated completion date is June 2012 and the revised estimated cost to complete is \$115 million. The delay was due to wet weather, construction difficulties, additional works and rectification of quality issues and equipment performance. There have been several construction innovations that have helped minimise construction risks and avoid using the full budget contingencies.

The project is a key element of WaterPlan 2050 which is the long-term water supply strategy for the Central Coast. The project involves constructing two new pump stations and a two-way pipeline between Mardi Dam and the much larger Mangrove Creek Dam, enabling more water to be harvested from Wyong River and Ourimbah Creek during high river flows.

Dividend

The Authority paid a dividend of \$1.8 million (\$1.7 million) to Gosford City Council. Local government water and sewerage supply businesses are permitted to pay annual dividends to councils from operating surpluses.

Financial Information

Abridged Income Statement

Year ended 30 June	2011 \$'000	2010 \$'000
Service charges	37,334	38,352
Usage charges	27,788	23,491
Other	36,959	25,293
Total Revenue	102,081	87,136
Total Expenses	67,292	67,721
Surplus	34,789	19,415

The increase in combined service and usage charges was due to higher prices. Typical residential sewerage charge property increased from \$464 to \$483 representing an increase of four per cent. Other revenue increased due to grant income of \$27.0 million (\$12.0 million) for the Mardi Mangrove link construction.

Expenses decreased slightly because employee benefits costs fell by \$2.1 million (due to the decrease in employee numbers) offset by higher borrowing costs of \$1.7 million associated with borrowings for the Mardi-Mangrove link construction.

Abridged Statement of Financial Position

At 30 June	2011 \$'000	2010 \$'000
Current assets	42,720	71,318
Non-current assets	1,870,221	946,146
Total Assets	1,912,941	1,017,464
Current liabilities	12,627	21,145
Non-current liabilities	87,934	90,886
Total Liabilities	100,561	112,031
Net Assets	1,812,380	905,433

Current assets decreased by \$28.6 million due to the decrease in the receivable from Gosford City Council of \$19.3 million and a decline of investments of \$12.1 million.

Non-current assets increased due mainly to \$819 million revaluation increment of water supply network and sewerage assets during the year. The increment was the result revaluing assets at 30 June 2011.

Authority Activities

Gosford Water Supply Authority is part of Gosford City Council and provides water, sewerage and related services.

For further information on Gosford City Council, refer to www.gosford.nsw.gov.au.