Council writes in response to the Issues Paper released by the Productivity Commission that considers challenges around funding for local water utilities (LWUs). It's important to draw attention to the risks associated with the adoption of certain practices as evidenced by previous government initiatives. It is crucial to evaluate these to ensure transparency, efficiency, and the long-term sustainability of essential services, especially water supplies. Indeed, we need to be wary that proposals aren't effectively a hidden tax, an off-balance sheet income from purchases of assets by one entity of another (that the tariff paying public already own), or some form of a Trojan Horse to assist with the 450 gigalitres water buy-back.

Moreover, the ramification of past models, if used in this instance, needs to be clearly understood. If local water businesses are excised from local government, the reduction in scale and capacity in the remainder of local councils' administration and workforce - emergency management resource capability, removal of (local council) employees career paths, and the propensity for larger (out of area) contracts - will be adversely affected accordingly.

The wider risk, which has been proven post local government amalgamations in NSW, is the slow but inevitable migration of former staff to major centres which are chosen to host regional water providers. The syphoning of staff to these areas then has a cascading effect on schools, health services, police, ambulances, retail and FMCG provision etc. at the smaller local government areas.

Sadly, proposals of this kind are invariably sold to the public on the idea that tariffs will be reduced. It is notable that a similar kind of myth was used to sell local government amalgamations in all States and that this sales pitch was subsequently proved wrong in almost every case.

In the last four decades, there has been a trend among State Governments to adopt a model aimed at leveraging public assets for provision of dividends to the shareholder (governments) and coercing one entity to borrow money to buy another for assets already owned (paid for by tariff payers). There are potential risks and pitfalls associated with this model, and Council's fear is that regional water utilities may follow the same path.

Key concerns:

[redacted]he initial step would involve taking control of [redacted] 'Corporations' or Government Business [redacted]ve towards a more transparent and effective [redacted] the model, it is essential to scrutinize the [redacted]ouncils running water businesses provide administrative support that is amortised across all the services councils provide. Thus, the real cost of administrating Water Funds is quite low. For instance, staff workstations are provided as part of the wider service function, again, very efficiently. Forming a GBE will add duplication and reduce the ability to amortise expenses across multiple functions of a council (that is, result in a deterioration of economies of scope).

It should be noted that water funds are already accounted for separately in audited financial statements thus ensuring full transparency.

The argument that scale would be improved was used when promoting local government amalgamations in NSW and QLD. Whether it was solely the tyranny of distance or other misconceptions, the purported savings never eventuated. It would be important to demonstrate empirically that economies of scale do actually exist, before embarking on any major changes (through a rigorous approach such as full hull disposability or data envelopment analysis). Assumption laden work – like was used to justify amalgamations – is a recipe for financial disaster.

Dividend Extraction*:* Governments may see opportunities to extract dividends from these GBEs, leading to potential financial strain on the corporations (sweating of assets) or tariff increases. This, in turn, could impact maintenance and infrastructure replenishment, raising concerns about the long-term reliability of water networks and also inter-generational equity.

Off-Balance Sheet Transactions*:* The amalgamation of GBEs, involving one borrowing to purchase another, has been used by past governments, as off-balance sheet income was considered very attractive. For example, the then NSW Government sold the 132kV overhead Electricity Distribution Network to the Retail and Distribution Corporations (EnergyAust). Effectively, EnergyAust purchased what consumers already owned so that off-balance sheet income went directly to the government.

Financial manoeuvres of these kinds, while not affecting the state's credit rating, could have far-reaching implications for customers (tariff payers). There would be a risk if network reliability suffered longer-term - in reality there is the same income, the same number of tariff payers, but under the proposal an additional interest burden and interest rate risk. This is all suggestive of likely future tariff increases. Since any new tariff is typically amortised over twice as many tariff payers who would be geographically more removed - amalgamations of the new corporations – it is hard to understand how this might be expected to result in greater transparency.

If instruments, such as the aforementioned, are executed without understanding the wider ramifications - such as economically induced siphoning of communities leading to social decline - we will inevitably find ourselves in a cycle of short-term gains at the expense of long-term infrastructure sustainability and social cohesion.

Lastly, it would be incongruous of the Productivity Commission, to link the 450 gigalitres buy-back to the review.

This submission serves as a cautionary note, urging the Productivity Commission to look beyond the de rigueur.