



Contact Person: Mr Greg Tory

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NSW Productivity Commissioner
Mr Peter Achterstraat AM
GPO Box 5469
SYDNEY NSW 2001
Email: LWUReview@treasury.nsw.gov.au

Dear Sir

Re: Alternative Funding Models for Local Water Utilities - Issue Paper

Thank you for the opportunity to make a submission on the above issues paper on behalf of Lachlan Shire Council.

Lachlan Shire Council and a snapshot of the Water and Sewer Services are characterised by the following attributes;

Area	14,973km ²
Population	6,089
Percentage of population over 65 years plus	20.6%
Percentage of Aboriginal population	21.8%
Median age	39.1 years
Gross Regional Product	\$750m in (2019/20)
Total number of water connections	2,682 (2019/2020)
Water network reticulation length	269.9km
Number of separate water supply schemes operated	5 x schemes as follows; 3 x Water Treatment Plants (Potable) 2 x Raw Water (Non-potable)
Water connections per 100m of watermain	0.994

Annual Operating Cost for Water Network (FY2022/23)	\$5,645,000
Annual Revenue from Water Charges (FY2022/23)	\$4,770,000
Water Availability Charge (20mm meter) FY2022/23 or (FY2023/24)	\$535 (\$567)
Water consumption charge per KL FY2022/23 or (FY2023/24)	Tier 1 - \$3.10 (\$3.30) Tier 2 - \$4.35 (\$4.60) Raw Water - \$2.10 (\$2.25)
Potable water charge increases over the past 7 years	40.4%
Raw Water charge increases over the past 3 years	12.5%
Total number of sewer connections	2,129 (2019/2020)
Sewer network reticulation length	79km (with 19 Pump Stations)
Number of separate sewer schemes operated	3 x Sewer Treatment Plants
Sewer connections per 100m of sewer main	2.695
Annual Operating Cost for Sewer Network (FY2022/23)	\$2,257,000
Annual Revenue from Sewer Charges (FY2022/23)	\$2,204,000
Sewer cost per connection FY2022/23 or (2023/24)	\$845 (\$896)
Residential Sewer Charge increases over the past 7 years	53.4%
Average water and sewer residential bill FY2021/22	\$1867.74 (this was the 3 rd highest typical residential bill for a medium ranked LWU across regional NSW. Councils typical residential bills have ranked in the highest 3 typical residential bills for regional, medium sized, LWU for the past 5 years).

Comments on Issues Paper (IP)

IP Page Reference	IP extract	Comment
Page 9 – 1.1	<p>"customers in small communities often pay higher water and sewer bills"</p>	<p>Agreed. In Lachlan Shire our communities pay the 8th highest average water and sewer bills across regional NSW and the 3rd highest bills for medium sized LWU, as reported on the DCCCEW Performance Monitoring Data base. Council's typical residential bills have ranked in the top 3 for medium sized local water utilities for the last 5 years.</p> <p>Over the last 5 years Council's Tier 1 consumption charges have increased by an average of 4.4% per year while the availability charge has increased by an average of 5.8% per year over the same period.</p> <p>The information available on the Performance Monitoring Database does not reflect these percentage changes over the 5 year period as community water consumption is heavily influenced by climatic conditions. When the region is in drought water restrictions impact water consumption and during flood, or wet years, residents consume less water. This significantly varies water demand which directly impacts revenue and the average residential bill.</p>
Page 9 – 1.2	<p>Minimum Service Levels are needed to inform funding models.</p> <p>"minimum service levels could benefit customers"</p>	<p>Agreed. However, this will come at a cost to consumers that could be significant. If Minimum Service Levels include performance standards such as frequency of mains breaks or aesthetic water qualities substantial infrastructure upgrade and renewal may be required.</p> <p>Many regional and rural communities have aged infrastructure that is at the end of its useful life and may not allow the achievement of minimum service levels.</p>

Page 10 - 1.3	Lack of economies of scale. "collaboration among LWUs"	Agreed. Cross the Central NSW Joint Organisation collaboration is already occurring. Relevant staff from the member councils, which includes Lachlan Shire, participate in a sub-committee and co-ordinate joint tenders for external services that produce savings through economies of scale for all members.
Page 10 – 1.3	Alternative funding models "availability of other funding sources for LWU, such as TCorp loans".	<p>The use of debt to fund capital and operational expenditure is unsustainable for very small and small LWU where revenue is not sufficient to meet operational costs and capital reserves cannot be established.</p> <p>The serviceability of debt adds to the operational cost and therefore necessitates a reduction in other service levels or increased charges.</p> <p>In communities with low socio-economic characteristics, capacity to pay increased charges removes the option of debt as an alternate funding source.</p> <p>Lachlan Shire Council is currently considering how it can fund an estimated contribution of \$18m to \$20m toward the cost of replacing the Condobolin Water Treatment and Sewer Treatment Plants. If the contribution is funded through debt this will increase the average water bill by approximately \$400 per year and the average sewer bill by approximately \$260 per year.</p>
Page 11 – 1.4	Funding model principles "5. What might be the typical cost for delivering water and sewer services for a well-run local water utility."	<p>Determining the typical cost of delivering water and sewer services and defining a well-run local water utility are difficult questions to answer. The characteristics of the water supply significantly impact on the cost of providing the service.</p> <p>For example, water produced from a ground water source requiring no treatment other than the addition of chlorine and fluoride is much cheaper to produce than that from a surface water source where dam maintenance, water quality, filtration, increased electricity</p>

		<p>demand, etc impact the cost. Similarly soil characteristic can impact the life of buried infrastructure such as pipes, water chemical characteristics affect the durability of fittings etc. Network length and connection density also impact the ability for customer sharing of fixed costs. As such, it is not possible to easily compare LWU's and determine which is the better run.</p>
Page 14 – 2.1	<p>Overview</p> <p>Differentiations of LWU's based on connection numbers.</p>	<p>The method used to define LWU into Very Small, Small, Medium and Large is flawed as it does not consider the number of water and sewer treatment plants or the length of the distribution and collection networks required to service the respective connections.</p> <p>As previously stated, Lachlan Shire Council provides water to 2,682 connections; however, the water is produced from 3 separate water treatment plants and 2 raw water distribution systems. The largest distribution system only services 1569 connections. Therefore, Lachlan Shire should be classified as a Very Small LWU.</p>
Page 16 – 2.2.1	<p>Water Quality</p> <p>“Current funding allocated require local councils to submit a project proposal, which can result in time delays potentially due to limited capacity.”</p>	<p>Time delays should not automatically be assumed to be caused by councils. Lachlan Shire has several projects progressing through the DCCEW gateway assurance framework. We have experienced delays of up to 12 months, at multiple gateways, in receiving feedback from the department on option papers, design comments and progress strategies.</p> <p>Presumably these delays are caused by capacity limits within the department.</p>
Page 17 – 2.4	<p>Financial Performance</p> <p>“The ability for a LWU to recover its costs through user charges is generally related to its size and location.”</p>	<p>Agreed. However, additional factors such as the characteristics of the water source, length of the distribution or collection network and connection density also affect the ability to recover costs.</p> <p>The DCCEW Best Practice Pricing Guide which, encourages LWU to recover costs on a prescribed consumption to availability ratio of</p>

		<p>60:40 or 75:25 (for larger LWU) is not practical for small water utilities where water consumption is heavily influenced by climatic conditions. During drought water restrictions reduce revenue and during wet periods consumption is reduced. Revenue insecurity limits LWU ability to service debt and even plan infrastructure renewal.</p> <p>A move to a pricing model that provides improved confidence for expected revenue, such as a reversal of the consumption to availability ratio to 25:75, would help alleviate this uncertainty.</p>
Page 21 – 2.5	<p>Current funding arrangements</p> <p>“LWUs tend to have limited use of debt:</p>	<p>See previous comments about income uncertainty and serviceability increasing operational costs.</p>
Page 24 – Box 2.2	<p>Local Government Financial Assistance Grants</p>	<p>The provision of water and sewer services by a local council are not considered when the Grants Commission determine the distribution of Financial Assistance Grants. There is no disability factor built into the calculation to assist councils providing water and sewer services. Therefore, councils not providing these services, arguably, receive proportionally greater funding than councils that do.</p> <p>Over the last 5 years Lachlan Shire Council has been required to cross subsidise their water and sewer business by between \$900k to \$1.4m dollars per year. These funds have been allocated from Council’s General Fund which includes income from the Financial Assistance Grant. This allocation is made at the expense of other council services such as road maintenance, sporting fields and recreation reserves, children’s services, libraries etc, thereby further disadvantaging small rural communities.</p>

<p>Page 26 – 2.5.4</p>	<p>Limited use of debt funding</p> <p>“Local governments typically have limited use of debt, as they do not have a commercial focus”</p>	<p>I believe this statement is unfairly presumptuous and offensive to many hard working, lateral thinking, innovative employees working in LWU across regional NSW.</p> <p>While debt provides intergenerational equity for long life assets, loan repayment costs increase rates and charges which is problematic in low socio-economic communities. Uncertainty around revenue due to climate impacts, as previously described, creates loan serviceability problems requiring councils to cautiously consider the impact of debt. This is considerably different to the suggestion that limited debt suggest a lack of commercial focus.</p> <p>The Local Government Act 1993 Section 8A and 8B describe Guiding principles for councils and Principles for sound financial management which councils endeavour to achieve.</p>
<p>Page 28 – 3.1</p>	<p>Government responsibility to provide safe and reliable water supplies.</p> <p>“better collaboration between LWUs to achieve economies of scale”.</p>	<p>As previously mentioned Council is a member of the Central NSW Joint Organisation and has staff who are members of the JO Water Alliance. We participate in joint procurement activities and other initiatives to obtain economies of scale for our community.</p>
<p>Page 29 – Box 3.1</p>	<p>Town Water Risk Reduction Program – Phase 2.</p> <p>“Skills and training for water operations, including mandatory training requirements, to address the acute lack of trained water operators in regional NSW”</p>	<p>The lack of trained water operators in regional NSW is a direct result of the State Government changes to TAFE and the training programs offered by some government departments. The lack of available trainers and training options is the result of these changes.</p> <p>In the recent past Council has sent operators to participate in training programs arranged through the Central NSW Joint Organisation. As a result, a high proportion of our staff are fully trained operators.</p>

Page 45 – 5.2.13.3	Greater use of commercial products	See previous comments regarding serviceability of debt, resultant increase in operation costs from loan repayments and socio-economic characteristics of the community.
Page 45 – 5.2.2	More targeted government grants and subsidies	Agreed.
Page 47 – 5.2.5	Utilising developer charges	<p>The cost of development in rural areas is often higher and exceeds the combined sale value of the lots created. Therefore, the responsibility for developing land for new residential areas falls to the local Council who are also the LWU. This is because it is not financially viable for private developers to undertake this work. This situation often results in small rural councils discounting charges in an attempt to encourage and facilitate development.</p> <p>Due to the demand for residential land and its unavailability, Lachlan Shire Council are currently constructing a residential subdivision. The return on investment will likely be 30% to 50% less than the development cost, exclusive of developer servicing charges. In these circumstances the collection of developer charges is irrelevant.</p>
Page 51 - 5.3.2	<p>Broadening the role of State Owned Corporations.</p> <p>“Long term partnership agreements between LWU and SOC to deliver water and sewerage services.”</p> <p>“Long term lease agreements for SOCs to operate the assets for a period of time and recover the associated user charges.”</p>	<p>At what cost and how are charges set?</p> <p>This option assumes that the existing service is not being operated efficiently or that greater economies of scale are available than are currently being utilised. If this is not the situation what will be the cost to the local community. Small rural towns have already experienced loss and contraction of state run services for economic reasons. Services such as hospitals, community safety (Police), education, etc have all been reduced under economic rationalisation and user pays principles.</p>

		A guarantee that water and sewer services would not be withdrawn or reduced would be necessary to gain community support for these possible arrangements.
Page 52 – 5.3.3	<p>Moving to regionally based usage and service charges</p> <p>Postage stamp pricing and other regionally based pricing options.</p>	<p>The arguments to move to Joint Organisation or more broad regional based pricing are the same for moving to a state pricing model.</p> <p>Communities pay the same or similar prices for State and Federal Government services including electricity, car registrations, emergency services, hospital fees, telecommunications, medical services and postage fees etc. Larger communities clearly cross subsidise the cost of services to smaller communities and the same pricing arrangement could and should exist for the supply of water and sewer services.</p>
Page 52 – 5.4.1	Addressing water safety, security and sustainability through a more targeted, whole of investment life cycle funding model.	Agreed.
Page 61 Appendix D	<p>Minimum Service Levels</p> <p>Issues to consider</p> <p>“...all people have access to the full range of quality health services they need, when and where they need them without financial hardship...”</p>	<p>The use of the health system as an example of providing minimum service levels is a poor analogy. Health outcomes for residents in rural areas have been contracted into larger regional centres resulting in increased transportation costs, inconvenience and adverse health outcomes for residents.</p> <p>Most rural communities are dissatisfied with the minimum services levels being provided in health. They will seek assurance that the minimum standards proposed for water and sewer services are adequate to ensure that the service is fit for purpose.</p>

I trust that my feedback, provide on behalf of Lachlan Shire Council, assists the Productivity Commission to formulate an appropriate alternate funding model for local water utilises and I am willing to expand on my comments if necessary.

If you have any questions regarding my submission please contact me on [REDACTED] during business hours or on [REDACTED] any other time.

Yours sincerely

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Greg Tory
General Manager