

JK/EF24/48

28 March 2024



The Commissioner
NSW Productivity Commission
Alternative Funding Models for Local
Water Utilities
(Response Submitted Through: LWUReview@treasury.nsw.gov.au)

Dear Commissioner

RE: A Rural Council's Response to Alternative Funding Models for Local Water Utilities.

The purpose of this letter is to outline Leeton Shire Council's (Council) response to Alternative Funding Models for LWU.

NSW Productivity Commission Alternative Funding Models for LWU's Issues Paper

The Commission will investigate and develop options that sustainably fund and deliver services to LWU's and their communities with reference to:

- (a) Challenges from current funding models
- (b) Funding model principles
- (c) Minimum service levels
- (d) Alternative funding options

Council's Responses (in black font below)

(a) Challenges from current funding models

1. What are the key factors that affect local water utilities' ability to recover costs through user charges?
 - Environmental influences on water utilization, such as fluctuations in water demand and consumption levels, can affect a utility's revenue stream. Over the last few years, Council has experienced both dry spells and wet weather conditions.
 - Council also receives raw water through the Murrumbidgee Irrigation Channel system and is downstream from a number of large communities. If there is a heavy rainfall event upstream, the dirty water can trickle down to our system, requiring additional treatment and therefore cost increases.
 - High fixed costs such as depreciation and servicing borrowings.

- When faced with bushfires and flooding, water and sewerage infrastructure is not eligible under Disaster Recovery Funding Arrangements (DRFA).
2. What might be reasons for some local water utilities with similar size and remoteness to perform differently in terms of level of cost recovery?
 - Significant distances between small populaces influences travel time and operational cost.
 - Diseconomies of scale for smaller water and sewerage assets per capita.
 - Inland NSW generally is dryer, with more water quality challenges the further downstream you travel.
 - Per capita cost comparisons are basically more unstable for a smaller populace.
 3. What are key challenges with obtaining funding for water and sewerage infrastructure upgrades and investment?
 - NSW Safe and Secure Water Program Eligible Risks and Issues List (ERIL) de-values risk for towns with population less than 2000 people. This means that the NSW State Government/relevant funding bodies do not have an accurate picture of risk and therefore, underinvests in essential infrastructure for small populations in remote and regional NSW.
 - Significantly longer than expected timeframes to receive regulatory permission for project planning, design, and business case stages.
 - Conflicting regulatory agency advice during planning assessment/approvals for projects.

(b) Funding model principles

4. What factors should be taken into account in calculating government subsidies for local water utilities?
 - Socio-economic status of customers and community.
 - Risk of service level failure relative to capacity to self-fund solutions.
 - Remoteness—higher operating and capital delivery costs in distant parts of NSW.
 - LWU capacity to deliver operational and capital work.
5. What might be the typical costs for delivering water and sewerage services for a well-run local water utility?

There is no set cost to provide water and sewerage services because of the vast diversity of operational environments that are beyond the LWU's control, even when median and average values can be determined from available data. Geographical separation between the served population centres, climate, hydrology, shared water resource management, per-capita infrastructure requirements, and transient servicing requirements like tourism are all included in this.

6. What indicators could be linked to funding to drive ongoing performance improvements and deliver value for money for customers?

Encourage constant improvement, making progress every day, month, or year on an extended trend, while realising that a wet, dry, or stormy climate has a significant impact on performance from year to year.

(c) Minimum service levels

7. Should the minimum service levels be applied universally to all towns within the area serviced by a local water utility, irrespective of size, remoteness or cost?

It is possible that service outages in smaller towns or schemes could go unnoticed if high performance data from the major, larger town is combined with performance data at the utility level. This is not something the smaller community would tolerate. Nonetheless, there is no reason why expenses shouldn't be combined to have small communities pay a comparable sum.

8. What metrics should be considered in minimum service levels?

The base philosophies should be in line with Sydney Water and Hunter Water; nevertheless, they must take into consideration factors that are outside of a LWU's jurisdiction. For example, a multi-agency, community-focused, whole-of-catchment approach is required to ensure the quality of upstream catchment water.

9. What is the existing evidence on current basic service levels, customers' needs for minimum service levels and willingness to pay in regional and remote communities?

Customer surveys can be unreliable for smaller populations. This needs to be taken into account and LWUs could be supported financially to ensure the type of survey delivers a statistically valid sample.

10. What are the barriers to setting measurable service levels?

There should not be two significantly different levels of service in Australia (metro vs rural) – there should be equitable access to service that is essential to human life.

11. What are challenges with monitoring and reporting against minimum service levels?

- Cost and capacity to measure and report.
- There are already significant burdens on LWU's in monitoring and reporting performance to numerous regulators, with provision of accurate and timely data remaining a significant challenge for small LWU's.
- Setting and analysing data in context with the LWU's working environment.

(d) Alternative funding options

12. What are the desired outcomes for addressing the challenges currently faced by local water utilities?

Recognition that context is the key and one size does not fit all in regulating LWU performance. There is significant diversity in operating environment for LWU's in regional NSW.

13. What are obstacles to greater use of loans from financial institutions to fund infrastructure investments in water and sewerage services?

The debt accumulated by LWU's can significantly affect the overall financial health of an entire council. This factor proved pivotal during the evaluation of Fit for the Future metrics in 2015/16, which ultimately influenced decisions regarding council amalgamations. LWUs often consider taking on debt for major projects, aimed at aligning with the funding requirements of initiatives like the Safe and Secure Water Program. However, the size of the LWU relative to the debt incurred is carefully weighed, as smaller LWUs frequently shy away from utilizing debt due to apprehensions about long-term financial and political risks.

14. What measures would drive investment planning that takes account of climate change risks and ongoing costs of infrastructure maintenance?

- The NSW Government through AdaptNSW was assessing climate change impacts on infrastructure through XDI, the cross-dependency initiative. This would drive the recognition of cost impacts on regional infrastructure from climate events.
- Infrastructure standards could be developed.

15. Who are most at risk from high water bills in regional, remote and metropolitan New South Wales?

- There are hidden risks based on a few factors:
 - When LWU's take on new large assets there are increased costs of operation, depreciation and servicing of borrowings that need to be covered with higher bills.
 - The 'infrastructure cliff' when a town was provided with services via donated assets at a point in time some decades ago and the assets reach the end of their useful life all at the one time.
 - Disaster recovery costs
 - The demand for increased service levels due to increased regulatory expectations

16. What has worked well and what have been challenges for local water utilities in leveraging the scale and expertise of State-Owned Corporations?

Providing assistance to LWUs is generally not explicitly authorised for State-Owned Corporations (SOCs) under instruments like their Operating Licence, as it falls outside the scope of their primary business activities. Additionally, there is a lack of

clarity in problem definition, including clearly articulated strategies and assistance programs to guide SOCs on addressing LWU needs 18.

17. How could government and local water utilities better partner with Aboriginal communities to improve their water and sewerage services?

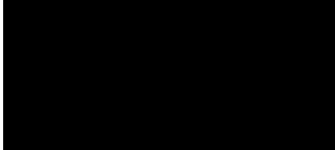
Continue the Aboriginal Communities Water and Sewerage Program (ACWSP) and look at where LWU's are unable to meet the needed service levels.

Concluding comments

Enhanced funding for water utilities in regional areas of NSW could bring positive changes to those communities. If the state government invests in both running costs and large capital projects, it can help these areas grow economically, ultimately benefiting the whole State. Leeton Shire Council seeks a fair system based on what each community needs. Right now, too much of the available support is focused on funding large capital works. We would do well to work together with the NSW Government to find innovative efficiencies in the day-to-day operations of our LWUs. We should also look at using technology and staff training to reduce risks and get the most out of the water systems we already have.

Thank you for the opportunity to make this submission.

Yours sincerely



Jackie Kruger
General Manager