

# NSW Productivity Commission – Alternative Funding Models for Local Water Utilities – Issues Paper

## Introduction

Goldenfields Water County Council (GWCC) is a NSW Local Government regulated water utility, serving the Riverina and South West Slopes region of NSW.

GWCC supplies water to customers within its area of operation (22,526km<sup>2</sup>), which covers or crosses the boundaries of ten (10) Local Government Areas (LGAs) of Bland, Coolamon, Junee, Temora, Narrandera, Carrathool, Lalchan, Cootamundra-Gundagai, Wagga and Hilltops Shires. Services provided to these areas are undertaken via 11,000 retail connections and additional bulk water supply services to Hilltops, Cootamundra-Gundagai and Riverina Water.

GWCC oversees the longest regional Local Water Utility (LWU) network of pressurised water supply mains in NSW in order to service the 46,000 people within its area of operation. GWCC's operational system consists of around 2,400km of pressurised water supply mains, 5 water treatment systems, 40 pump stations and 114 reservoirs with a replacement value at around \$450m.

GWCC has an annual turnover of around \$23m with a ten-year capital delivery program estimated at around \$130m.

## County Councils

There are currently only four water county councils within NSW. County councils are established under Chapter 12, Part 5 of the Local Government Act 1993 (LG Act). Relevantly, section 394 of the LG Act provides that the functions of a county council are set out in the proclamation establishing the county council, and that:

*A council (General Purpose Council) may not undertake a function conferred on a county council whose area of operations includes the whole or any part of the council's area, subject to the regulations or a proclamation made for the purposes of this Part.'*

Goldenfields Water County Council (GWCC) was established by proclamation on and from 2<sup>nd</sup> May 1997. Clause 4 of Schedule A of our proclamation provides that the functions of GWCC are 'the functions of a council for the provision, care, control and management of water supply works, services and facilities within its area of operations'.

Whilst County Councils are regulated under the LG Act, they are not subject to the issues of rate pegging and operate as full cost recovery.

## Challenges from current funding model

### What are the key factors that affect local water utilities' ability to recover costs through user charges?

- **Economies of scale** - as detailed within our introduction, GWCC maintains around 11,000 retail connections and provides bulk connections to Hilltops Shire, Cootamundra Gundagai Shire and Riverina Water County Council. These services are delivered across 22,526km<sup>2</sup> via around \$550m worth of assets.

Having such a vast extent of supply network with a low number of connections, provides difficulties in achieving sustainable economies of scale when trying to meet appropriate or best practice levels of service.

As an example, Riverina Water County Council operates over an estimated 15,000km<sup>2</sup> of area with around 30,000 water supply connections, with a similar value to GWCC in assets. The difference in economy of scale is directly related to the provision of a Typical Residential Bill (TRB), where Riverina Water provide a charge, based upon 200kl/annum of usage at around \$458/annum, compared to GWCC's \$710 (based off DPIE's 2021/22 performance monitoring financial year data).

Whilst both utilities provide an excellent value for money service, GWCC applies a higher cost to its customers simply due to the inability to recover costs at a greater customer density rate.

- **Rate pegging** – current provisions of rate pegging within local government general purpose councils, incentivizes the need for cross subsidization and reliance on the water and wastewater operations of a council. Rate pegging must be removed, in order to understand the true cost of operation and remove the reliance on these services to cross subsidies other activities of a council.
- **Declining population** - Some rural and regional localities are seeing and foreshadowing a decline in population. This will exacerbate the issue of economy of scale and willingness to invest.
- **Market volatility** – With the increased costs for energy, materials and labour, utilities are having to absorb/re-prioritise their delivery programs to account for these major short-term price imposts. LWU's develop a price path via a 20-to-30-year horizon with general indexation. This is also directly attributable to the rate of depreciation required as an OPEX item.

Recent events across the world have seen price increases by up to 50% for some operations that are having a serious impact on delivery of works and maintaining minimum levels of service. Currently a significant number of councils are undertaking Special Rate Variations to accommodate this impost. By general attributions for indexing, GWCC has applied 7.71% in the previous financial year with an increase of 5% on income.

- **Hardship** - With the current Cost of Living (CoL) crises, LWU's are seeing an increased request to maintain prices and an increase in unpaid accounts. Whilst LWU's have the ability to increase fees to directly offhand cost increases, there needs to be an ability to pay for those communities. This will be a greater impost on those communities with low socio-economic advantage.

In addition to the above and during the time of Covid lockdowns, hardship and COL were major considerations in establishing annual price paths for Councils. GWCC provided a 0% increase for the 2020/21 financial year, to accommodate this. This adjustment has had significant impacts on required cost increases since, with GWCC providing an average of 5% increases since this period to try and catch up.

- **Water restrictions** – historically the only period in which GWCC was required to enter restrictions across all of its schemes was due to the millennium drought where the minister placed a blanked call for restrictions to all water users. GWCC did not necessarily require the impost of restrictions; however, the political provision at the time seen the potential to severely reduce income from sales.

In addition to restrictions GWCC has spent the last three financial years with the lowest periods of demand on record, simply due to the high levels of rainfall and wet weather events. GWCC generally operates with a \$2m fluctuation reserve to accommodate any significant impacts on demands for water sales, however these prolonged periods have had a significant impact on our operating reserves whilst trying to accommodate our scheduled delivery program.

- **Emergency events** – LWU's, whilst planning for long term delivery programs are constantly absorbing costs into emergency events. In addition to this, drought is not considered an emergency event and is not subject to appropriate permanent funding provisions for communities requiring alternative water provisions.

## What might be reasons for some local water utilities with similar size and remoteness to perform differently in terms of level of cost recovery?

- **Locality** – Some LWU's have access to appropriate quantity and quality of water that may help to reduce risk and associated with cost of managing that water supply. For example, GWCC is able to access a majority of its water supply from confined groundwater sources where treatment can be limited due to reduced risk, where another LWU, may require the construction and maintenance of dam to source surface water, which is then required to have considerable treatment barriers in place to reduce any incidents of potential public health risks. Specific water sources require specific treatment requirements, which in turn effect the price of water.
- **Economy of Scale** – as detailed above GWCC has a significant area of operation to manage and maintain with a low level of customer base to recover funds from. When compared to similar sized utilities, this can directly reflect the TRB.

- **Adopted levels of Service** - There is currently no minimum level of standard adopted for NSW for LWU's to abide by. This has a direct relevance to cost provisions for services. GWCC believes that a minimum standard must be adopted in order to ascertain base level provisions for public health in service supply. Whilst the ADWG provides the parameters of water quality, provisions of supply pressure and maintenance is subjective.
- **External influences** – Regulation and market volatility have a direct influence on provision of costs. For example, the introduction Health Based Targets (HBT's) will impose significant costs of any future treatment plant/process upgrade when compared to existing operations. As detailed above, market volatility provides a significant risk to LWU's to recover costs within a timely fashion. When the market becomes volatile via a short-term application, the ability for LWU's to recover those costs implications becomes significantly harder, especially where there is a low economy of scale.

### What are key challenges with obtaining funding for water and sewerage infrastructure upgrades and investment?

- County Councils are at times not eligible for available funding and if they are eligible, they are only eligible for a limited amount, which is generally 25% in comparison to general purpose councils being able to access multiple funding sources and up to 75%.

GWCC believes that the historical provision of grant funding, has rewarded bad behavior. This is where an LWU may have neglected maintenance, investment or failed to adequately plan for long term provisions and has then essentially been 'bailed out'. High performing utilities that invest in long-term provisions and meet criteria of best practice tend to miss out on funding, as they do not meet the risk criteria. LWU's with an actual need for financial support in meeting full cost recovery of their operations, should not be confused with examples of bad management.

This is where a clear need for appropriate funding models is required to be established to assist LWU's with low economies of scale and are actually disadvantaged.

- **Safe & Secure Water Program** – GWCC supports the findings from the Audit Office of NSW's 2020 *Support for regional town water infrastructure* review. Specifically, the below statement:

*'The department did not design or implement a strategic approach for targeting town water infrastructure investment through its \$1 billion Safe and Secure Water Program (SSWP). Most projects in the program were reviewed by a technical panel but there was limited evidence available about regional and local priorities to inform strategic project assessments. About a third of funded SSWP projects were recommended via various alternative processes that were not transparent. The department also lacks systems for integrated project*

*monitoring and program evaluation to determine the contribution of its investments to improved town water outcomes for communities. The department has recently developed a risk-based framework to inform future town water infrastructure funding priorities.'*

Whilst implementation of a risk-based framework has been introduced, GWCC do not believe the current matrix for determining risk prioritisation is an appropriate system. Specifically relating to the eligible town water risks and issues (ERIL) matrix. The calculation of risk for ERIL, de-rates risk for towns with a population less than 2000 people. These smaller communities are immediately disadvantaged when competing for priority funds.

## Funding model principles

### What factors should be taken into account in calculating government subsidies for local water utilities?

- **Socio economic status** – GWCC agrees with the approach of referencing indices such as SEIFA, especially for small regional and remote communities. There are much higher costs for operation and capital delivery in remote parts of NSW.
- **Economy of Scale** – GWCC believes that a provision for an LWU's ability to recover costs and maintain a supply system, should be developed and considered. This should be calculated in two parts:
  1. Number of connections for an LWU to recover costs, and
  2. Number of connections versus km of main

### What might be the typical costs for delivering water and sewerage services for a well-run local water utility?

- There is no 'typical' cost that could be determined appropriately under the current operating status. The costs associated with the provision of water and sewer are specifically attributed to locality and agreed service provisions/standards. However, if a minimum level of service was to be established across all LWU's, then a benchmark metric could become more reflective of a cost scale.

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

- **Reporting** - GWCC believes it crucial for all LWU's to report through the National Performance Reporting (NPR) Framework and not be limited to utilities with greater than 10,000 connections. It is crucial that any indicators reported, must be measurable and audited to ensure they are meaningful. These indicators must not be subjective.

GWCC also believes that the current annual performance reporting indicators must follow the limitation of the NPR Framework, as these indicators are extensive and provide little value for increased performance.

## Minimum service levels

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?

- GWCC believes that everyone deserves the same access to safe, secure and affordable water services, whilst acknowledging that the manner in which that service could be delivered will vary.

What metrics should be considered in minimum service levels?

- **ADWG** - GWCC believes that an LWU must be able to provide water quality requirements within the context of the Australian Drinking Water Guidelines. This will establish required Critical Control Points for targeting and metrics for reporting.
- **Water pressure** - Town water supply should accommodate a minimum standard of pressure that will accommodate adequate provisions for a township to maintain and facilitate any ability for growth.
- **Demand and Drought** – an LWU must consider its future demands and ability to operate within restricted levels of service during an event such as drought. Having communities reliant on essential services, requires these provisions to be maintained. Having provisions or targets established such as the '5/10/10 design rule', where a water utility would be able to cope with a drought more severe than had occurred in the past 120 years with only moderate drought water restrictions. It is essential to ensure that these services are measured with risks acknowledged if they are/can not be achieved.
- It is essential that any minimum levels of service to be established, is only determined for the provision of reticulated urban systems. All other connections such as rural, bulk supply or non – residential services will be subject to an agreed service level between the customer and the utility.

## 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?

- There is currently no evidence of established basic levels of service across the water sector. As previously mentioned, the impost of rate pegging and incentivisation of cross-subsiding the general purpose activities of council, makes it very difficult to determine the basis of actual cost and willingness to pay for cost reflective services by LWU's. This is also exacerbated by the ability of an LWU to pay a dividend to the general purpose area of a council.
- **Customer survey** - Whilst customer surveys can be subjective, GWCC has completed recent surveys to determine a willingness to pay for increased levels of service to accommodate incidents of discoloured water and low pressure situations. It was determined that our urban customer base would be willing to pay around an extra \$60 per annum on their TRB if it were to improve levels of service. This equates to around \$660,000 per annum for council to consider major upgrades.

## What are the barriers to setting measurable service levels?

- **Current status** – there is currently no single source of truth in knowing the current status of all LWU assets and associated condition. A report into better understanding a 'maturity' level in meeting a proposed impost of base level service must first be undertaken. This will identify the actual barriers to achieving this process including but not limited to asset management maturity.
- **Resources** - Whilst the consideration of infrastructure and assets will provide an oversight of gaps in meeting standards, it will not identify an LWU's ability to manage and maintain a system via the resources and skills it has at its disposal. What are the gaps, how can they be overcome and where will they be funded from, noting the tyranny of distance and remote isolated communities.

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

- As mentioned above, GWCC believes that all LWU's should report under the NPR Framework. Currently this is not the case and only 89 LWU's across Australia do. This framework established those minimum provisions on a national scale and should be adopted as a minimum reporting standard for comparative outcomes.

## Alternative funding options

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

- **Operational limitations** – where LWU's are unable to fully cost recover due to economy of scale and socio-economic disadvantage, GWCC believes that a Community Service Obligation (CSO) funding provision needs to be established.
- **CSO** - LWU's with a low economy of scale are generally operating an essential service with limited options of recovering adequate funds or maintaining adequate resources, noting their remote and rural localities. It is essential that these services be adequately funded as a Community Service Obligation under, or similarly to how the existing Australian Government's Financial Assistance Grants (FAG's) are implemented.

However, please note that Goldenfields County Council raises concerns that the current CSO funding model may only be limited to Public Non-Financial Corporations, State Owned Corporations and Public Financial Corporations in delivering these support services.

Goldenfields Water strongly believes that entities such as the NSW Water Directorate (who is already providing support from funding provided by all member LWU's), larger self-sufficient Local Water Utilities and Regional Water Authorities, such as County Council's are better placed to deliver support and expertise to rural utilities facing financial or resourcing hardship.

Any CSO funding model, should be re-defined to include the ability of these obligations being delivered from a local level to a local utility. The only obstruction to these entities delivering better support and resourcing to support other LWU's is, funding. A provision of funding under a CSO model will see a much more efficient and beneficial result to community services.

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

- As previously mentioned, LWU's associated with a general-purpose council, can provide a significant portion of cross subsidisation. This is also true in terms of borrowings, whereby the general-purpose operations of a council has the ability to leverage off the water and sewer fund to gain an ability to fund other projects that they may not otherwise have the ability to fund. In addition to this, the general-purpose operations also have the ability to borrow from the water and sewer reserves that may be available. This then and therefore has the ability to limit an LWU in borrowing capacity, especially if long-term loans are in place.
- An LWU should impose good practice principles when considering borrowings. GWCC have imposed a policy position whereby a debt servicing ratio must not exceed 20% of its annual operating revenue. It is not understood if this policy position was to be made mandatory for all LWU's that adequate funds could be drawn to cover the cost of services required?

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

- **Change of culture** - As mentioned above, historical provisions of grant funding incentivized bad behavior whereby a utility may not appropriately plan for long term provisions and minimize maintenance requirements with the expectation of a bail out, similar to the private sector running assets out. Elimination of this incentive would push utilities into a position of self-reliance. GWCC notes that a significant number of rural and regional LWU's are not capable of meeting full cost recovery; however, these LWU's should be supported by an appropriate CSO and CAPEX program where low economy of scale and disadvantage is clear.
- **Skills** - To enable the ability of an LWU to appropriately plan, requires appropriate skills. For a majority of rural and regional LWU's, these skills are scarce and fluctuate. GWCC believes that this is where a CSO requirement is crucial for the sector as a support mechanism. However, as previously mentioned, the CSO must be managed and operated at the local level and not from a State department, to ensure appropriateness of operation and that it is delivered efficiently in terms of time and cost.

As previously mentioned above, the Audit Office of NSW's 2020 *Support for regional town water infrastructure review*, provides a clear outcome as to why these support services need to be operating at a local level. It is just a lack of direct funding to enable support programs that need to be developed.

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

- **Demographic** - All customers are at risk of high-water bills; however, the definition of 'high' is the key aspect of this question. It is not necessarily a locality issue, it is more of a demographic issue. Even though a water bill maybe considered medium cost when benchmarked against other LWU's, it does not mean the specific customer base can afford it without consideration of risk. This is seen at every LWU, with a customers ability to pay and the current rise in outstanding accounts that have been seen over the past few years. Pensioners, small business and low-income householders, are the highest risk customer base that we currently identify at GWCC.
- **Pensioner Rebates** - regional LWU's have a capped pensioner rebate of \$175 per customer (\$87.50 each for water and sewer) with the NSW Government only covering 55% of this. There has been no increase in this rebate since 1993 and in comparison, to the State Owned Corporations such as Sydney Water, they are 100% covered. This inequality needs to be eliminated.

- **Infrastructure** – Some historical investments in water and sewer infrastructure have been implemented without consideration of long-term operating costs and resourcing. Major projects such as water or sewage treatment systems, have been managed via state agencies and handed over to LWU's for ongoing operation. These types of situations can and will inflate costs to cover any gaps required by an LWU.

## What are examples of projects or operations associated with a funding model based on regional collaboration for local water utilities? What were the challenges?

- **County Councils** – Goldenfields Water is a regionally operated LWU. GWCC supplies water to customers within its area of operation (22,526km<sup>2</sup>), which covers or crosses the boundaries of Local Government Areas (LGAs) of Bland, Coolamon, Junee, Temora and limited parts of the LGAs of Narrandera, Carrathool, Lalchan, Cootamundra-Gundagai, Wagga and Hilltops. The Wagga supply scheme is provided as a minor bulk supply of water to Riverina Water County Council.

GWCC's current areas of operation expand across ten (10) LGA's which historically cross three NSW Joint Organisational areas (RAMJO, RIVJO & CRJO).

GWCC has successfully undertaken its strategic planning provisions for the region, working collaboratively with all of its constituent councils including other regionally operated county councils. GWCC remains self-sufficient with full cost recovery and is able to onboard a highly skilled workforce with minimal staff turnover.

Challenges as a county council occur around:

- **Inadequate legislation for County Councils to operate** - significant reform needs to occur to remove current barriers within a County Councils operation. The combination of the use of the Water Management Act (WMA) versus the LG Act, needs to be integrated for specialisation of water and sewer supply functions. An example of such a barrier when compared to State Owned Corporations (SOCs), is the current difficulties LWU's face in penalising customers for water theft. Sydney and Hunter Water have the ability to enact appropriate penalties under the WMA, whereas LWU's cannot and during the recent drought scenarios, theft had occurred without repercussion.

In addition to this, county councils have been neglected through an historic approach of seeking efficiencies within amending state planning legislation. As such, there is currently no mechanism in the development assessment process that mandates the referral of development applications to NSW county councils for consultation and concurrence of development, where the proposed development may impact on the functions of a regions water supply.

The effect of this, is that development applications, and/or developments not requiring consent, are referred to county councils on a discretionary basis. This has and continues to result in sub-optimal outcomes and undermining the ability of the county councils to carry out their functions efficiently and effectively across a regional supply network.

County Councils are seeking to be recognised as a concurrent 'Approval Agency' within the State Environmental Planning Policy (Infrastructure)/(ISEPP) and the NSW Planning Portal in relation to the services detailed under their individual proclamations.

- **Funding** – Whilst GWCC is self-reliant, this is on the basis of maintaining the status quo. It would be advantageous for our region to be eligible for funding to accommodate major renewal programs and increased levels of service. For example, GWCC has around 50% of its extensive 2400km pipe network that has been depreciated. Whilst we are investing significant amounts in renewal projects (\$130m over ten years), the timing of delivery in order to maintain our current financial capacity, will extend periods of high outages, discoloured water events and lowered levels of service. Funding would assist us with being able to 'crash' some of the major renewal programs and seek support from external markets that operate at a higher cost for delivery.

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

GWCC are unable to provide comment on this, as we have never experienced support from a SOC.

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

- The Aboriginal Communities Water and Sewerage Program (ACWSP) has been operating since 2008 partnering between the NSW government, NSW Aboriginal Land Council and Local Water Utilities to improve water and sewerage infrastructure for 63 eligible Aboriginal communities. GWCC is of the understanding that this is well ran and provides sufficient support for delivering improved services.

## Additional comment

GWCC would like to make note that local governments only collect around 3.5 percent of taxation nationally which is inadequate to cover the cost of developing, managing and maintaining the required infrastructure to facilitate future demands.



GWCC is a strong advocate for a CSO model, where funding can be attributed to LWU's via a similar mechanism to the Federal Assistance Grants. However, this program was operating with around 1% of the commonwealth tax revenue in the 90's to now only being provisioned at around 0.55%. Correcting this shortfall, will go a long way in provisioning an appropriate funding model for LWU's.

Yours sincerely



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