

NSW PRODUCTIVITY COMMISSION ALTERNATIVE FUNDING MODELS FOR LOCAL WATER UTILITIES



CENTRAL NSW JOINT ORGANISATION

- Bathurst
- Blayney
- Cabonne
- Cowra
- Forbes
- Lachlan
- Lithgow
- Oberon
- Orange
- Parkes
- Weddin

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Website: www.centraljo.nsw.gov.au
Chair Cr Kevin Beatty, Mayor, Cabonne Council

28 March 2024

Mr Peter Achterstraat AM
NSW Productivity Commissioner

Email: LWUReview@treasury.nsw.gov.au

Dear Mr Achterstraat,

Re: Alternative funding options for local water utilities providing water and sewerage services in regional NSW

Joint Organisations (JOs) were proclaimed in May 2018 under the NSW Local Government Act 1993. The Central NSW Joint Organisation (CNSWJO) represents over 180,000 people covering an area of more than 53,000sq kms comprising the eleven Local Government Areas of Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Lithgow, Oberon, Orange, Parkes and Weddin.

Tasked with intergovernmental cooperation, leadership and prioritisation, the CNSWJO has consulted with its stakeholders to identify key strategic regional priorities. The CNSWJO Strategic Plan can be found here - www.centraljo.nsw.gov.au.

CNSWJO member councils all operate local water utilities (LWUs), so the security, availability and affordability of town water supplies for the communities in Central NSW is core business for the councils in this region. Our councils service 72,314 water connections and manage 14 water treatment plants.

Firstly, we thank you for the opportunity to provide input to this inquiry to investigate funding options to help reduce service risk for local water utilities and provide advice to the NSW Government on a future direction with specific reference to:

- minimum levels of service
- the diversity of local water utilities
- the extent to which funding models could lift performance of local water utilities and overall
- incentives to lift performance
- transition pathways to a new funding approach and ways to leverage the capabilities of State-Owned Corporations
- pensioner rebates.

Where our member councils may provide separate submissions, this response is informed by policy developed in region and endorsed by the CNSWJO Board.

Response to the Issues Paper

Based on CNSWJO Board policy we provide the following feedback.

Challenges from current funding models

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

Firstly, while it is understood that ownership of LWUs is not part of the terms of reference for this inquiry, it must be stated that the CNSWJO Board support institutional arrangements that maintain local government responsibility for the operation and management of water supply and sewerage services and infrastructure in regional NSW. It opposes the transfer of council provided water supply and sewerage services to state owned water corporations or their privatisation.

Regional water supply and sewerage services provided by Local Water Utilities (LWUs) is done as a cost recovery model, not a profit-making model. Its core aim is to provide safe and secure water supply and sewerage services at an affordable price to residents and businesses in regional NSW.

Currently the rating of water utilities is on an either 75:25 or 60:40 basis where the larger number is based on consumption. This is a very challenging constraint on Local Water Utilities (LWUs) trying to achieve financial sustainability. Interestingly IPART has not constrained the State-Owned Corporation Essential Energy in this way for the provision of water for Broken Hill – indeed the taxpayers of NSW subsidise this supply in effect as a community service obligation. LWU self-funding is augmented by State funding through a competitive framework and torturous processes. This includes:

- Significant overheads and business case costs for Water Infrastructure NSW to operate small regional projects
- Significant delay in achieving regulatory approval for business case, planning and design stages of projects
- Conflicting regulatory agency advice during planning assessment/approvals for projects.

This process is such a significant disincentive that LWUs, particularly the least resourced, do not pursue funding in a timely manner. There is, as identified in the Issues Paper, a significant backlog of infrastructure needing funding.

Current risk assessment processes employed by the State and used to fund infrastructure through the Safe and Secure Water Program are skewed towards larger LWUs and exclude communities with populations less than 2000 who are least able to pay.

The regulatory framework

Compounding this challenge is the ever-increasing regulatory burden placed on LWUs with aged infrastructure not designed to manage the higher standards now expected in, for example, water treatment. Over the past decade the pace of regulatory change has meant that existing infrastructure and, in some cases, newly approved infrastructure still under construction, has been unable to keep pace with the increase in expectations. The introduction of health-based targets by NSW Health is an example.

Added to this is the financial and human resource impost on councils in navigating the State Government's Regulatory and Assurance Framework (RAF) developed in response to the NSW

Auditor General's Report into Support for Town Water Security by the Department of Planning and the Environment Water (Sept 2020)¹ where members continue to report challenges.

While access to safe, secure, quality drinking water is a human right, the reality is that the costs of the provision of drinking water to the standards expected by regulators simply cannot be borne by regional councils particularly those more remote rural councils with small rate bases. No one would disagree that all potential risks to drinking water should be managed but the major issue, aside from the security of water in the first place, is the revenue source. Who is going pay?

Water Security

Further the provision of secure water to be treated for drinking remains of the highest priority for Central NSW Councils. Having lived through two droughts and devastating floods, this region has a deep knowledge of the investment needed to meet critical human needs, the NSW Health Guidelines and the productive potential of the region through both dry and wet times.

Many of our communities including the larger regional centres of Orange and Bathurst remain at risk of running out of water. We know from recent modelling by the State Government and from the 2009 Centroc Water Security Study² that no amount of demand management will deliver the water security needed for communities of the region. Larger communities are at particular risk as they are unable to cart water. What is needed is investment in additional storage with a pipeline grid to move water to where it is needed in times of shortages.

Where our member councils and their communities continue to invest significantly in shoring up their water security, some of these projects are cross regional and require investment by multiple councils and the state to enable. They take years to happen are extremely costly and the investment in business cases alone can run into multiple millions without a shovel ever breaking ground. Again, who is going to pay?

Despite activity by Councils, not enough has been done since the last drought to ensure adequate security is in place for towns. Failure of urban water supplies is socially unacceptable and the avoided costs of communities running out of water worth hundreds of billions of dollars to the economy.

Disaster Recovery

Further impacting on council owned local water utilities' ability to recover costs through user charges is the impact of successive natural disasters on Central NSW communities. Some of our members, for example Lithgow, Parkes, Forbes, Lachlan and Cabonne councils have been in a permanent state of disaster recovery over recent years. With climate scientists pointing to more frequent climate extremes, the challenge for councils is that water and sewerage infrastructure is not eligible under Disaster Recovery Funding Arrangements.

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?

Local water utilities in regional NSW have a responsibility to cover all costs and provide a positive return on investment to their local council owner. The CNSWJO Board policy is that councils can

¹ <https://www.audit.nsw.gov.au/our-work/reports/support-for-regional-town-water-infrastructure#:~:text=According%20to%20the%20Auditor%2DGeneral,shortages%20of%20safe%20water%20i>

² <https://www.centraljo.nsw.gov.au/content/uploads/2.centroc-water-security-study-component-2-options-paper-rev-1-291009.pdf>

determine their own rates. The bigger problem is pricing and affordability for communities to pay for services.

The replacement and upgrade of pipelines and other water infrastructure is critical to the water security of the towns and villages. While the responsibility for asset replacement is the asset owner, this is not always practical for small rural councils.

Many of these small rural communities have relatively low socio-economic populations with a higher percentage of indigenous residents. To provide treated water to these communities, extensive reticulation networks are required for relatively few connections. Therefore, the cost per connection is much higher in small towns and villages than it is in larger population centres. For this reason, water charges are often high and usually only just cover the operational cost of producing treated water, without building sufficient revenue reserves for asset replacement.

There are significant infrastructure maintenance challenges for regional LWU's including:

- Long distances between small populations impacts travel time and operational cost
- Diseconomies of scale for very small water and sewerage assets per capita
- Inland NSW generally is more arid, with more water quality challenges the further downstream you travel
- Per capita cost comparisons are simply more volatile for small population.

The trend will be for increased asset development to address water security, water safety, environmental performance and integrated water management. When combined with the cost of borrowings and increasing operational cost this will create issues with financial sustainability.

Financial sustainability is unlikely to be addressed with structural reform of LWUs. Bigger LWUs spread over large areas of regional NSW will not automatically lead to increases in efficiency and effectiveness.

Funding model principles

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

The issues raised above, the ongoing costs to communities from successive natural disasters, market pressures including high fixed costs, geographical and socio-economic considerations inform the position of the CNSWJO Board that the provision of water for the communities of regional NSW should adopt a community service obligation (CSO) framework that considers:

- Community needing to have control over its water supply
- Socio-economic status of customers and community
- Population size
- Economies of scale (or lack thereof)
- Remoteness – higher costs of operational and capital delivery in remote parts of NSW
- Risk of service level failure compared with ability to self-fund solutions
- Access to secure water supply sources
- Levels of service considerations and obligations including regulation under health and the EPA.
- LWU capacity to deliver operational and capital work
- Community ability to pay

- the economic contribution of rural areas to state revenue (see detail under the value of town water below).

Recognition of the productive value of town water

Significant to this inquiry is that urban water and its productive value is poorly considered in NSW and Commonwealth frameworks from the Murray Darling Basin Plan down to the Regional Water Strategies and Water Sharing Plans.

Where the replacement and upgrade of pipelines and other water infrastructure is critical to regional communities and the responsibility of the asset owner, in any discussion of funding for this, recognition must be given to the economic contribution of rural areas to state revenue. While the revenue is mostly generated by agriculture, it is the small towns and villages that support the agriculture industry.

Without recognition that the “user pays” principle does not work in small rural councils /communities, and that the state economic benefit produced by these areas justifies state subsidisation for infrastructure, we will likely experience ongoing population decline as residents leave these centres to access basic services. This results in the further loss of services in rural towns, e.g., medical, education, policing, sporting and entertainment which further reduces the liveability of the areas in general.

Having said this the challenge remains where is the revenue going to come from and what is the basis for its distribution? The model will need to be sustainable and equitable and while recognising the need for efficient and effective use of public money, not impose yet more costly and resource intensive processes on councils. It will need to be based on agreed minimum levels of service and an objective place-based risk assessment based on health, environmental and financial criteria.

The development of a CSO framework should include significant work with LWUs where the approach should be codesign – not bureaucrats’ assumptions about LWUs and ultimately creating a framework that runs the risk of not being fit for purpose. Any number of examples can be provided of assumptions that have led to unfortunate outcomes for regional communities.

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

As stated above, the CNSWJO Board policy is that councils can determine their own rates. They do this in discussion with their communities based on their willingness and capacity to pay. The bigger problem is pricing and affordability for communities to pay for services and what level of service is expected.

Although median and average values can be extracted from any data, there is no typical cost to deliver water and sewerage services due to the wide range of operating environment that is beyond the control of the LWU. This includes geographic distance between population centres served, climate, hydrology, management of shared water sources, infrastructure required per capita, short term servicing needs such as tourism.³

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

³ NSW Water Directorate Submission to the NSW Productivity Commission Inquiry into Alternate Funding Models – March 2024.

It is suggested that rather than being linked to targets driven by regulators and unachievable by many regional LWUs (see earlier commentary), funding should be linked to incentives that drive continuous improvement over a longer term. This incentivised approach must acknowledge the unique challenges that plague regional LWUs currently. This includes climate extremes and the impacts of natural disasters on infrastructure as well as staff shortages and competing priorities that affect a LWUs year-to-year performance.

The CNSWJO Water Utilities Alliance programming provides an example of a performance improvement approach where the first step for any project is a maturity audit to determine the point at which councils are at in their maturity. Next steps to improve maturity are then identified on a place-by-place basis with the emphasis on regularly reviewing and benchmarking performance over time. All projects require individual council reports that provide tailored recommendations and a regional report that recommends opportunities for future regional programming and resource sharing. The aim of this approach is to establish a baseline and to share knowledge and resources across the Alliance membership to assist some of the less mature LWUs to improve.

CNSWJO member councils contribute through their annual fee structure to a Performance Monitoring and Benchmarking Program where performance monitoring data is audited and improvements suggested. Work is underway on readiness reviews for drinking water management system audits. This approach is being taken to prepare councils for full external audits now required by NSW Health.

Regular audits are also completed using the Institute of Public Works Engineering Australasia (IPWEA) National Asset Management Assessment Framework (NAMAF). These audits have been conducted twice over recent years and have the potential to inform Asset Management Improvement Plans that can be reported to Councils Audit and Risk Improvement Committees.

The opportunity exists for state agencies to work hand in hand with LWUs to drive this incentivised approach that is fit-for-purpose and addresses the needs of LWUs on the ground. This is as opposed to funding assistance programs devised by agency bureaucrats and regulators with no real on-the-ground understanding of what is needed to drive improvements. More detail can be provided on request.

See more detail provided under Alternative funding options.

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?

The CNSWJO Board policy is that access to safe, reliable, affordable drinking water is a human right and critical to the growth and prosperity of the region. Failure of town water supplies is socially unacceptable and economically costly. That said, how that service can be delivered will vary depending on geography, water sources, population serviced, socio-economic factors, ability to cart water in during times of shortages etc.

It is acknowledged that realistically not all small communities will have access to reticulated water and sewerage services, with a basic service level being a roof-connected rainwater tank for their water supply and an on-site sewage management system (such as a septic tank) for managing wastewater. These basic services inherently have a higher risk of failure to meet drinking water

health standards or environmental protection standards respectively. More attention could be paid to mitigating risk for unserved communities.⁴

The standards applied to wastewater returns to the environment vary greatly across NSW and can depend greatly on the risk appetite of the environmental regulator at the time rather than the costs to a community for environmental compliance.⁵

The view of the CNSWJO Board is that levels of service and a community's willingness to pay for these are a conversation that councils need to have with their communities on a place-by-place basis. While obviously drinking water must meet the Australian Drinking Water Guidelines and be safe to drink, in some communities the costs associated with the ever-increasing standards expected by regulators may not be able to be funded by the community. The application of health-based targets in regional catchments in small inland communities is an example.

There shouldn't be two significantly different levels of service anywhere in Australia based on equitable and affordable access to a service that is essential to human life.

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

The CNSWJO agrees with the NSW Water Directorate response that it isn't optimal to simply impose a higher regulatory standard without multi-agency technical and funding support. This support – especially access to specialist skills – will be required regardless of the funding model or institutional structure.

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?

As the NSW Auditor General's report found, the regulatory framework including for strategy, data and other evidence is poor. As a result, there is insufficient evidence available on basic service levels and willingness to pay.

The Town Water Risk Reduction Program went some way in exploring improvements to this parlous situation but there is much yet to be done. The CNSWJO policy is to use the existing regulatory framework under the Local Government Act, the Integrated Planning and Reporting (IP&R) framework based on ISO55000 for assets, for Local Water Utility strategy.

A collaborative project by the CNSWJO and its Water Utilities Alliance is underway currently to assist our member councils to transition their LWU strategic planning into the IP&R Framework. This is attracting some interest across the state from others wanting to explore this approach. The opportunity here is to develop the evidence base through well-established IP&R processes including community engagement to inform strategy and understand the communities' expectations around levels of service and the willingness to pay for these. While ever NSW government agencies seek to duplicate existing Local Government regulatory processes such as is contemplated under the Regulatory and Assurance Framework confusion will reign.

Detail on the opportunity to leverage regional collaboration to improve the evidence base is provided elsewhere in this response. It includes work in performance monitoring and benchmarking,

⁴ NSW Water Directorate Submission to the Productivity Commission Alternate Funding Model Inquiry

⁵ NSW Water Directorate Submission to the Productivity Commission Alternate Funding Model Inquiry

drinking water management auditing, asset management auditing, water loss management and water operators training.

All projects rely on evidence gathered as a first step generally through a maturity audit process. They also demonstrate the challenges and barriers that need to be overcome where urban water is so poorly considered in the broader frameworks.

See Case Studies in Water Loss Management and Water Operator Training.

[Central NSW Joint Organisation Water Operator Training Program Case Study Water Loss Management – A Regional Hub Approach in Central NSW](#)

CNSWJO would welcome the opportunity to share any of the data sets that we have and our knowledge and expertise working in this space.

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

The problem here is the same as that described in response to question 9 where a key barrier to measurable service levels is that LWU and their services are treated differently to other aspects of councils' operations. Setting measurable service levels is core to good asset management and can all be done for LWUs through using the processes including for asset management that are integral to the IP&R framework.

Different elements of IP&R point to and should link back into councils Audit Risk and Improvement Committees. The opportunity exists for DCCEEW to work hand-in-glove with councils leveraging existing systems rather than inventing new processes through the Regulatory and Assurance Framework to achieve the same outcomes.

While the CNSWJO continues work to integrate LWU strategic planning into the IP&R framework with associated cost savings and efficiencies, on-going advocacy is needed to reduce the red-tape burden that is a barrier to addressing town water security risks and setting measurable service levels.

The CNSWJO agrees with the NSW Water Directorate position that what is needed is a consistent multi-agency regulatory approach to compare the socio-economic costs against the benefits of increasing regulatory standards year-on-year. Trade-offs are inevitably required between social, financial and environmental requirements. Impact assessment should avoid desktop scenarios wherever possible and use real-world examples and data.⁶

The CNSWJO Board has long advocated for the missing piece being effective inter-governmental collaboration at the regional level in strategic water planning and management. In line with the findings of the Productivity Commission and NSW Auditor General (report Sept 2020) future reform should ensure effective collaboration on water management at the regional level between multiple government agencies, Councils and Joint Organisations, Local Water Utilities and local and regional stakeholders, including in water reliant industries.

Other barriers include the constant churn and change in the machinery of government and in state agencies compounded by skills, resourcing and funding shortages within councils.

⁶ NSW Water Directorate Submission to the Productivity Commission Alternate Funding Model Inquiry

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

The CNSWJO supports advice by the NSW Water Directorate that there are already significant burdens on LWUs in monitoring and reporting performance to numerous regulators, with provision of accurate and timely data remaining a significant challenge for small LWUs. Another challenge is context – the operating environment faced by an individual LWU and its local challenges.

It isn't immediately clear from existing operating data that some communities are provided with a lower level of service due to a LWU spending within its means as the ability to make strategic investment into asset upkeep is unaffordable.

Again, with reference to response to questions 9 and 10, LWUs do not need duplicative performance monitoring process when there already exists a framework under the Local Government Act being the IP&R framework.

Alternative funding options

We recognise that institutional arrangements that maintain local government responsibility for the operation and management of water supply and sewerage services and infrastructure in regional NSW are outside the terms of reference for this inquiry.

The CNSWJO Board has welcomed the NSW Government's current Joint Select Committee inquiry on protecting Local Water Utilities from privatisation, in particular, examination of *how* LWUs and their assets can be best protected against privatisation, forced amalgamations and sell-offs. It is hoped that the Committee's response will be to support legislation that enshrines this protection providing there are no perverse consequences with outsourcing to the private sector and that any legislative change will be done in a true co-design manner with the sector to ensure a fit-for-purpose outcome.

Having said this, the question that really needs to be asked is not about structural arrangements but rather *how* LG LWUs can be supported and enabled to deliver local services and respond to the ever-increasing risks to their communities.

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

Key to addressing the challenges currently faced by LWUs in regional NSW is recognition that one size does not fit all in regulating LWU performance. There is significant diversity in operating environment for LWU's in regional NSW.

NSW councils are responsible for providing water and sewerage services to more than 1.9 million people in NSW outside the areas covered by the Sydney and Hunter water corporations. These services are provided by 92 council-owned and operated local water utilities (LWUs). Covering an area of almost 782,000 square kilometres.

The range of physical characteristics, combined with the geographic spread of communities within many LWUs and the wide range of climatic conditions all contribute to the nature of water supply and sewerage service delivery in regional New South Wales.

Given these factors there are limited opportunities for centralised treatment plants connected with extensive pipelines. In most cases, local systems are the most appropriate and cost-effective solution for regional communities. However, there are opportunities for resource and skills sharing amongst geographically closely linked water utilities.

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

Under the Local Government Act LWUs should consider inter-generational equity.

While debt provides inter-generational 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 suggests a lack of commercial focus.

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.⁷

As referenced earlier, the trend for increased asset development to address water security, water safety, environmental performance and integrated water management when combined with the cost of borrowings and increasing operational cost will create issues with financial sustainability. The obstacle being the size of a LWU relative to size of debt being taken on for a major project, most commonly to match the funding mix required by the Safe and Secure Water Program.⁸

Debt taken on by LWU's affects the whole council's financial bottom line.

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

LWUs have already been severely affected by climate events in the last 5 years between the Black Summer bushfires in 2019-2020, coinciding with the worst drought in 130 years of measurements and subsequent record flooding in 2021 and 2022. It is critical that LWUs are eligible for Disaster Recovery Funding and that climate change risk and disaster preparedness is recognised in the IP&R framework as opposed to the creation of some duplicative process set up by another agency.

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

Customers in small communities often pay higher water and sewer bills. In Lachlan Shire the community 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 DCEW 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.

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.

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

⁷ Lachlan Shire Council Submission to the Productivity Commission Alternate Funding Model Inquiry

⁸ NSW Water Directorate Submission to the Productivity Commission Alternate Funding Model Inquiry

and during flood, or wet years, residents consume less water. This significantly varies water demand which directly impacts revenue.⁹

As detailed elsewhere, there are numerous risks that are compounded by other factors:

- When LWUs take on new large assets there are increased costs of operation, depreciation and servicing of borrowings that need to be covered with higher bills. 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.¹⁰
- 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 at a similar point in time.
- Disaster recovery costs with water and sewer assets ineligible for DRFA funding if the service charges are more than 50% of the cost of delivering the service.
- The demand for increased service levels due to increased regulatory expectations and standards.

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

The collaborative Water Utilities Alliance model has been recognised by the Productivity Commission, the Independent Local Government Review Panel and IPART as a model for the delivery of LWUs in regional NSW.

For smaller and more remote LWUs, regional solutions facilitate resource sharing and provide skills and knowledge to assist utilities in the coordination of service planning and delivery to satisfy regulatory requirements.

Regional alliances capture the benefits of regional solutions without having the disadvantages of institutional settings where water supply and sewerage functions are removed from councils.

Challenges are insufficient resources and funding to promote regional collaboration. Compounded by the lack of enablement of regional collaboration in state government strategic frameworks.

There are great opportunities for resource and skills sharing amongst geographically closely linked water utilities that are yet to be optimised with the major barrier being the strategic framework and lack of inter-governmental collaboration that includes Local Government as a partner with a seat at the table in the development of strategy and policy in the water space.

The CNSWJO Board supports that the NSW government consider delivering permanent ongoing funding for regional water alliances of councils to assist them with delivering efficient water and sewerage services. In 2021 the Queensland government approved \$2 million per year on a permanent basis for the state's Q-WRAP program.¹¹

⁹ Lachlan Shire Council Submission to the Productivity Commission Alternate Funding Model Inquiry

¹⁰ *ibid*

¹¹ <https://qldwater.com.au/qwrap>

Central NSW Water Utilities Alliance

Local Government management of water utilities in Central NSW is being undertaken on a solid basis through the Central NSW Joint Organisation's Water Utilities Alliance (WUA) with demonstrable cost savings and efficiencies being achieved since formation of the Alliance in 2009.

The need for the region to work co-operatively around secure water supplies and to deliver water quality objectives was identified in the Centroc Water Security Study (CWSS). Adopting the successful Lower Macquarie Water Utilities Alliance model, the WUA was formed in 2009 to initially progress the options from the CWSS and provide the collaborative platform to progress future infrastructure options.

Since then, the WUA has earned a strong reputation through taking a unified approach to support member Councils in meeting best practice in water and sewer management and in achieving cost savings and efficiencies. The WUA does this through joint procurement of regional contracts including for asset management, auditing and benchmarking, operator training and strategic water planning and management and through mentoring and the sharing of knowledge and resources.

Programming is innovative and focused on compliance-based best practice service delivery to achieve optimal outcomes for communities with a focus on the security and quality required to meet increasingly stringent regulatory standards.

While supporting the need for investment in water infrastructure, Alliance programming aims to optimise the operation of existing infrastructure through auditing and identification of low-cost, high impact operational improvements supported by operator training.

Through membership of the WUA, member Councils can demonstrate a compliance-based approach to the best practice delivery of water and sewer services that are necessary to ensure confidence in Local Government retention of control over local water utilities (LWUs).

In the Water Utilities Alliance Strategic Plan 2022-2032 the aim is for Local Government to be recognised as trusted leaders in delivering secure, quality, urban water services by collaborating with stakeholders to help Central NSW Councils go above and beyond compliance.

The objectives are to support the effective and efficient delivery of value to members and other stakeholders in quality and secure water and wastewater services through:

1. Integrating water strategy (once Integrated Water Cycle Management) into Integrated Planning and Reporting.
2. Supporting leading practice and innovation in the delivery of quality, secure drinking water and wastewater services through:
 - a. Aggregated Procurement and shared services
 - b. Training mentoring and capacity building
 - c. Performance Improvement - Benchmarking and Auditing
 - d. Water and energy efficiency programming
 - e. Digitalisation/Smart metering
3. Supporting the CNSWJO Board commitment to secure quality water supplies and sewerage services for the communities of Central NSW through the provision of advocacy advice.

With decades of successful inter-Council cooperation delivering value to its member Councils through the WUA, the CNSWJO offers shared value to both its members and other levels of government in advocating for solutions to the challenges of planning and managing the delivery of LWU services for Central NSW communities. Examples include:

- advocating for Local Government as the delivery mechanism for LWU services to communities in regional NSW to the State and Federal Productivity Commissions
- submissions to various inquiries into the drought and water security for the region¹²
- integration of town water into the strategic framework for water through the development by the State Government of the State and Regional Water Strategies including for the Lachlan and Macquarie catchments
- extensive engagement in the Town Water Risk Reduction Program to co-design a fit-for-purpose regulatory framework and LWU strategic planning framework
- advocacy and stakeholder engagement for various Government funded water security solutions for the region including the Belubula Water Security and Wyangala Dam wall raising projects
- review of Water Sharing Plans.

Through the drought the Joint Organisation and its Alliance supported its members in emergency water management including network planning, water sharing arrangements, infrastructure prioritisation and advocacy.

For more details regarding project work by the WUA- <https://www.centraljo.nsw.gov.au/regional-water-security/>

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

The CNSWJO support the NSW Water Directorate view that assisting LWUs is (in most cases) not clearly authorised for State Owned Corporations (SOC's) through instruments such as their Operating Licence as it isn't 'core business' for a corporation. The SOC's need to have a clear role and mandate to assist LWUs and the mechanism in place for this support to be provided when needed. In addition, there is a lack of problem definition – clearly defined strategies and assistance programs that inform SOC's on LWU needs.

18. *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) is a \$200 million program 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. The ACWSP provides a platform for further partnerships to deliver improved service levels and increase Aboriginal participation in the program.¹³

¹² <https://www.centraljo.nsw.gov.au/submissions/> <https://www.centraljo.nsw.gov.au/regional-water-security/>

¹³ NSW Water Directorate Submission to the Joint Select Committee on Protecting Local Water Utilities from Privatisation

Summary of feedback

A needs-based funding framework co-designed with LWUs in regional NSW that recognises that quality secure water is a basic human right and that looks at funding for infrastructure and planning through a regional lens is supported.

Where a Benefit Cost Ratio approach is problematic in the context of water for human needs, we support investigation of a CSO that recognises that the “user pays” principle does not work in small rural councils /communities, and that the state economic benefit produced by these areas justifies state subsidisation for infrastructure and planning.

The funding approach needs to look at the optimal, most efficient cost-effective ways to achieve the provision of LWU services for regional communities leveraging a regional approach where appropriate that is incentivised.

Whilst capital subsidy would be almost impossible to remove entirely, funding could also be directed to capability development of LWUs which includes professional development, certification of operator training and further development of water utility business management systems. The CSO could also be extended to address infrastructure backlogs for LWUs.

Developing a new alternative funding model for regional LWUs would represent a transformational opportunity for regional communities in NSW. The benefits from state investment in budget support for water and sewerage services to complement capital project subsidies will not only assist regional communities but will ultimately flow back to the state through improved economic development.

Finally, there are great opportunities for resource and skills sharing amongst geographically closely linked water utilities that are yet to be optimised with the major barrier being the strategic framework and lack of inter-governmental collaboration that includes local government as a partner with a seat at the table in the development of strategy and policy in the water space.

The CNSWJO Board thank you for the opportunity to make comment on the matters raised in this inquiry. We would welcome the opportunity to provide further feedback on the points raised in this submission.

If you require further information or clarification on comments in this submission, please do not hesitate to contact [REDACTED].

Yours sincerely,

[REDACTED]

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