

28 March 2024

NSW Productivity Commission  
By email to: LWUReview@treasury.nsw.gov.au

## Response to Issues Paper – Alternative funding models for Local Water Utilities

Thank you for the opportunity to provide feedback on the review into alternative funding models for local water utilities (LWUs) in regional NSW. The provision of safe, reliable and affordable water and sewerage services adds to the lifeblood of rural and regional communities, their liveability and economies and therefore a review of funding models for LWUs to ensure long term sustainability of adequate service levels is welcome.

### Context:

Port Macquarie-Hastings Council is located on the Mid North Coast, with 89,500 residents across a 3,686 square km area that extends from the coast to the hinterland. Council is also a Local Water Utility servicing approximately 82,500 connected customers (over 90% of the LGA's population) with four water treatment plants, two off-river storage dams (one, Cowarra, being the third largest Council owned dam on the North Coast) and eight wastewater treatment plants. Council's water and sewerage assets are valued at over \$1.088Billion with an annual operating expense in FY2023 of \$62,142,000 and an annual income of \$69,974,000.

Council's 2022 community survey found that sewerage and water services have an 83% and 85% service importance rating amongst the community respectively and an 88% satisfaction rating. Whilst both services were among the highest rated Council services for importance and satisfaction, the results also indicate room for improvement, however achieving any improvements would need to be balanced with affordability for our community. Council's combined typical annual residential bill for water and sewerage (2021-22) was \$1,645, which is \$257 above the weighted median for NSW LWUs<sup>1</sup>, but is still \$150 less than the median of the top 10 priced Major LWUs.

The Port Macquarie-Hastings Local Government Area is also one of the fastest growing regional areas in NSW with 2021-22 population data<sup>2</sup> indicating the area was the fastest growing LGA in regional NSW not serviced by either Sydney Water or Hunter Water. Our population is forecast to grow by an additional 28,664 people over the next 20 years needing to be housed in an additional 15,300 dwellings. This is approximately 37% of the housing needs of the North Coast<sup>3</sup>, the majority of which will need to be serviced by water and/or sewerage<sup>4</sup>.

<sup>1</sup> NSW Department of Climate Change, Energy, the Environment and Water, Local water utility performance - Finance - Typical Residential Bill - Usage - W&S, <https://water.dpie.nsw.gov.au/our-work/local-water-utilities/local-water-utility-performance>

<sup>2</sup> Commonwealth of Australia, Centre for Population, <https://population.gov.au/data-and-forecasts/dashboards/fastest-growing-local-government-areas>

<sup>3</sup> NSW Department of Planning, Housing and Infrastructure, North Coast Regional Plan 2041, <https://www.planning.nsw.gov.au/plans-for-your-area/regional-plans/north-coast/north-coast-regional-plan-2041/housing>

<sup>4</sup> Some large new lot rural residential properties will only be serviced by water.

While being a large coastal LWU with a growing customer base has its advantages in terms of generating income to cover operating expenses to provide an adequate service level, it also has significant challenges in terms of providing capital infrastructure to support and respond to the growth, while also needing to renew an ever-aging asset base.

Council's 10-year water and sewerage capital works program has over \$726Million worth of works listed, including asset renewal, asset upgrades and new infrastructure projects. Close to half of that amount, \$345Million, is identified to provide new infrastructure to service the population increase. This is a substantial amount of infrastructure delivery for a regional council to deliver in 10-years and a significant investment in a short period of time that will strain Council's water and sewerage finances with both funds projected to go into deficit within the 10 years without intervention.

In the absence of external funding support for these large projects, Council has also identified the need for over \$122Million in loans to deliver one of the more significant sewerage treatment plant projects that will support about half of the new homes required (8,000) in the next 20 years. Continuing to service these substantial loans for many years to come will further strain Council's ability to provide affordable, adequate and sustainable water and sewerage services to a growing community.

From our perspective as a large coastal LWU, below is information on the relevant Issues Paper questions:

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

Council has been able to adhere to the NSW Government's best practice guidelines for two-part pricing for water services with approximately 75% of income being derived from usages charges (\$/kL consumed) and 25% from fixed access charges (\$/connection based on meter size). Council is working towards the best practice guideline requirement of having the two-part pricing for commercial sewerage customers (usage based on water consumption) and a fixed rate for residential customers. Council also has in place a two-tiered water usage charge whereby a customer's price per kL used doubles if their annual consumption goes over the set threshold for the size of meter connected. This tiered pricing is aimed at demand management while also managing the cost of providing an affordable service to all customers. Our Water Supply Policy has provisions for major commercial water users and hardship provisions for vulnerable residential customers with high water needs to ensure there is set policy positions for giving concessions where appropriate.

Some key factors from our perspective are an area's customer density and demographic. Providing safe and reliable water and sewerage services relies on vast amounts of infrastructure that has, to a point, economies of scale if key elements are centralised, such as treatment facilities and pumping assets. However, if a customer base is dispersed over a wide geographic area at a low density, then the cost of the same service per customer goes up. Port Macquarie-Hastings LGA has three small rural villages with a combined population of approximately 700 people that are provided reticulated water and

sewerage services. The charges to customers in these areas are however the same as all other customers in the more populated areas of the LGA with a level of cross-subsidy occurring to ensure the same service level is provided across our community.

The Port Macquarie-Hastings LGA also has, like many coastal communities in NSW, a high proportion of senior residents with approximately 30% of our population aged over 65. This is projected to increase to 35% by 2046. Often this section of the population is asset rich but cashflow poor. Also, this often correlates to high percentage of pensioner rebates.

Within our LGA 26% of water connections and 27% of sewerage connections claim a pensioner rebate. For 2022/23 this equated to \$1,252,000 (\$632,213 for water and \$619,787 for sewerage). After the 55% Council received from the NSW Government the cost impact to Council was still \$563,401 (water - \$284,496, sewerage - \$278,905). This is the annual cost of approximately six water and/or sewer operations staff or renewing approximately 1.5km of asbestos cement reticulation pipe per year using contractors. Council understands the importance of pensioner rebate scheme, however a 100% cost recovery from NSW Government as part of a Community Service Obligation payment would allow these funds to be allocated towards providing and improving the water and sewerage service.

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?

Each community is unique, and a one-size fits all approach to assessing or classifying LWUs into groups doesn't work. The ability to attract and retain staff differs between LGAs that may appear similar in terms of size and remoteness for example. Everything from the cost of housing to employment opportunities for spouses or services for dependants comes into effect. The median house price in Port Macquarie has increased from approximately \$570,000 in 2019 to \$840,000 in 2023 which has significantly impacted our ability to attract staff from out of area as our remuneration has remained relatively fixed under the Local Government State Award.

Also, less obvious factors such as geology can affect the cost of services. The Port Macquarie-Hastings LGA for example has a high proportion of naturally occurring asbestos that increase the costs of constructing new or renewing existing underground assets.

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

The uncertain nature and competitiveness of government grants makes it difficult to obtain the required funding at the right time for infrastructure upgrades and investment. Often government grant funding rounds don't align to council budget cycles or due to the uncertainty of the funding the required planning and design work won't be commenced or if funding is made available generally the timeframes are unrealistic for the type of infrastructure being planned and delivered, especially if significant environment approvals are required or land acquisition, which can take years to resolve and often excluded under

funding guidelines. For example, Council reviewed the possibility of applying for grant funding under the Accelerated Infrastructure Fund (AIF), however projects needed to be completed by 30 June 2026, after funding is approved in April 2023.

In our experience over many large infrastructure projects, a three-year timeframe is unrealistic if the design, approvals and land matters haven't already been resolved. Each of these elements are a significant investment of themselves and may be difficult to fund in the timeframes the grant funding bodies require. Council's new Thrumster Wastewater Scheme, as an example, began the design phase in April 2022 and is unlikely to begin construction until 2026/27 and while facilitates for approximately 8,000 new homes doesn't meet the current funding guidelines for the AIF.

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

Port Macquarie-Hastings Council supports factors such as remoteness, a community's ability to pay and economies of scale for service provision. However also believe population growth in high growth regional areas should also be a factor for capital infrastructure subsidies. As one of the fastest growing LWU service areas in regional NSW significant capital investment in new infrastructure is required in the Port Macquarie-Hastings LGA over the next 10 years, which is aligned to meeting the NSW Government's housing delivery targets. While a proportion of the required capital investment can be serviced through developer chargers and existing customer income, Council has identified the need to borrow approximately \$122Million over several years to deliver the new Thrumster Wastewater Scheme. Due to its importance in facilitating the delivery of over 8000 new homes, the Scheme has been designated State Significant Infrastructure, however as mentioned above, it does not meet any current funding guideline requirements.

At its peak, the annual principal and interest repayments forecast to service these borrowing is over \$8.5Million. This will have a significant impact of the ability to undertake other capital works such as asset renewals in those years. Another impact from high growth is often asset renewals involve asset capacity upgrade. Port Macquarie as a regional city is expected to experience a lot of in-fill development. To adequately service this in-fill growth a lot of 1960's asbestos cement sewer pipes have to be upgraded and not simply renewed. Upsizing pipes, while sometimes feasible, cannot often be done via trenchless technology, therefore a lot of excavation in urban areas will be required adding to the cost.

It is acknowledged that a growing customer base is likely to have some ability to cover the required operational and maintenance expenses incurred from new infrastructure, however in the current economic climate, the future remains a little less certain.

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

This question is difficult to answer as there is likely not a typical water and/or sewerage service. While minimum technical standards may be the same, how these standards are

achieved and then provided to customers is very depended on the location, topography, geology, weather, customers expectations and so on.

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

Again, this question is difficult to answer as there are many variables that is linked to performance and a LWU's ability to demonstrate performance. Customer expectations and perception of value of money significantly differ community to community within our LGA, as well as across the State. For example linking performance demonstration to having appropriately documented and functioning management systems for driving improvements for customers may be within the capability for larger LWUs and worth the investment, but may not be achievable for smaller LWUs. Port Macquarie-Hastings Council has recently invested over \$300,000 in enhancing our Asset Management Systems and working towards alignment with ISO55000, with the lack of systems being raised by some within the community on occasion when issues arise. Smaller LWU's and their communities may not see the value in such an outlay given other priorities.

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?

Yes. Water is essential for life and access to adequate and reliable water and sewerage services should be universally applied. Port Macquarie-Hastings Council achieves this with the same provision of services to our three rural villages (approximately 700 people) at the same cost to residents the live on the coast of Port Macquarie.

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

Public health and appropriate environmental targets should be the main factors for considering 'minimum' service levels. A key challenge is that the 'minimum' level is for ever increasing. A recent example is the introduction of Heath Based Targets<sup>5</sup> for the provision of drinking water. This new 'minimum' has meant that our four water treatment plants are now not compliant, even though they have successfully provided millions of litres a year for the last 15 years of safe and reliable drinking water. While the NSW Government is not requiring any upgrades at this time for existing plants any other work on the plants will trigger the need for significant capital investment to meet the new 'minimum'. This is the same for the increase regulation for the treatment of wastewater. It appears regulation agency don't consider a community's ability to afford these new 'minimum' standards.

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?

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<sup>5</sup> NSW Health, Incorporating health-based targets into drinking water management systems and Section 60 approvals, <https://www.health.nsw.gov.au/environment/factsheets/Pages/incorporating-hbts-into-dwms-and-s60.aspx>

Port Macquarie-Hastings Council has not undertaken any extensive community engagement to gather evidence on current basic service levels and customers' needs and their willingness to pay. We believe this would be very specific community to community even within the same LGA.

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

One of the biggest barriers to setting service levels is the gaining the required input from the community. As an example, some recent active community engagement activities we have undertaken on water service related matters has only resulted in hearing from less than 0.05% of our customers. It is very staff resource intensive to undertake a sustained community engagement campaign to get high levels of community participation and generate interest in core services.

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

Data capture and analysis is one of the key challenges for LWUs when it comes to reporting against service levels.

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

Having access to safe, reliable and affordable water and sewerage services should be the desired outcome.

Having access to funding support and grant projects to meet the ever increasing regulatory and community expectations would assist greatly. Recognition from grant funding opportunities that many of the proposed LWU projects are intergenerational that take long planning lead times to achieve would allow better development of projects, rather than the need to be shovel ready to attract allocation.

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

The ability to determine long-term capacity to service the loans and the on-going impact on boarder council financial metrics that are reported to government are potentially some obstacles that are limiting the greater use of loans to fund infrastructure investment. As mentioned above Council has identified the need to borrow approximately \$122Million within the next 10-years to provide essential sewerage services to facilitate the projected high growth. This will have to be carefully managed and is likely to lead to the need to either defer other capital investment or increase prices, both having a negative effect on the community.

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

Having funding schemes or elements outlined in current funding guidelines that specifically address increasing infrastructure resilience to an uncertain climate. Also, the usual competitive nature of government grants has the perverse effect of only driving critical scope items to keep costs down. Any scope items that improve resilience or are included to address a future risk are seen as desirable and if included are likely to make the project less competitive therefore unsuccessful for the grant funding.

Council has been fortunate recently to receive grant funding under the Regional NSW - Infrastructure Betterment Fund for improvements at one of our Wastewater plants to increase its flood resilience. Receiving disaster related grant funding is very rare for water and sewerage services as 50% or more of the related income for the services is derived from user charges and not general rates.

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

The Port Macquarie-Hastings LGA has, like many coastal communities in NSW, a high proportion of senior residents with approximately 30% of our population aged over 65. This is projected to increase to 35% by 2046. Often this section of the population is asset rich but cashflow poor. This section of the community would likely be one of several that would be more impacted from any price increases.

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?

On the North Coast there is very little formal collaboration between LWUs. This is mainly due to too little to no external factors driving the need for collaboration. Each coastal LWU is largely based around single unregulated river catchments with no cross LGA boarder communities needing joint service provision. While there are several successful LWU collaboration models occurring between inland LWUs this is not currently occurring along the coast.

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

Port Macquarie-Hastings Council does not have any experience working closely with the State Owned Corporations. We have on occasion reached out for specific advice from Hunter Water on matters relating to development servicing for high density and have often relied on Sydney Water technical publications and policies as a basis for our documents. A key challenge would be problem or issue definition. The provision of water and sewerage services is very contextualised to the location and community it is being provided to. The technical nature (i.e design principles and standards) are often fixed but actual service delivery is influenced by local factors such as travel distance, local

contractor availability, employment conditions (over-time, on-call etc..) and therefore SOC experience wouldn't be easily applied to LWUs in regional or remote areas.

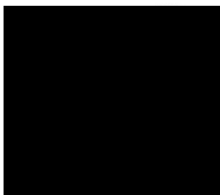
18. How could government and local water utilities better partner with Aboriginal communities to improve their water and sewerage services?

The Port Macquarie-Hastings LGA has a relatively low percentage of First Nations People with no specific Aboriginal Communities. As such Council does not have a lot of experience with working closely with First Nations People to improve their water and sewerage services.

Council thanks the Commission for undertaking this review and would welcome the opportunity to provide further information and expand on our submission through further target engagement. Ensuring the on-going sustainable provision of safe, reliable and affordable water and sewerage services will lead to only positive outcomes on all aspects of community life across regional NSW.

If you have any queries, please do not hesitate to contact me on [REDACTED]  
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Yours faithfully



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