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NSW Productivity Commission
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Subject: Submission – Alternative Funding Models for Local Water Utilities

Thank you for the opportunity to provide a submission to the Alternative Funding Model for Local Water Utilities Issue Paper.

Council provides water and sewer services to the city of Goulburn and the Marulan township. These are two separate systems. Goulburn services an equivalent population of around 28,000, while Marulan is smaller with an equivalent population of around 1000. Marulan, due to its location along the Hume Highway, and proximity to Sydney and the Southern Highlands, is experiencing high levels of development with population expected to reach around 9,000 over the next thirty years. This development has slowed due to the need to augment the capacity of the current wastewater treatment plant to service this growth. The cost of the provision of water and sewer services to Marulan per capita, are far higher than the cost per capita to provide this same service to Goulburn residents. While the access charges for water and sewer services in Marulan are higher than Goulburn, this does not cover the cost of providing water and sewer services to Marulan requiring cross subsidy from the Goulburn residents. State grant funding for the upgrade of smaller systems like Marulan, is considered based on the size of the utility rather than the size of the system – further relying on cross subsidies, as Council as a whole is considered a large water utility despite running a very small scheme with large costs that are not covered by the connected residents.

While Goulburn Mulwaree Council is classified as a large water utility, we are only a couple of thousand connections over the large utility threshold. Local water utilities throughout the state are required to all meet the same regulatory requirements for their operations regardless of size however income levels are dependent upon the number of connections. Councils need to consider affordability to residents when setting water and sewer charges for services and need to balance affordability for Water and Sewer services alongside other council charges (Domestic Waste and General fund services). The setting of charges to achieve full cost recovery, for operations, maintenance, regulatory requirements and capital works is becoming increasingly difficult when balancing services across the whole of Council.

Regional utilities have challenges that are very different to larger utilities, like Sydney Water or Hunter Water. For example, many regional councils are required to own and operate dams. These are high value assets that require specific staff skills and specialist reviews, due to the complexity and inherent risk of these structures. The establishment of Dam Safety NSW and the introduction of updated dam safety legislation, has increased costs due to additional compliance work required (some with additional mandatory peer review of reports or designs). Dam Safety NSW have recently released an issues paper regarding the potential implementation of a Dam Safety Regulation Levy to fund the activities of Dam Safety NSW. This again is a potential further cost to recover from our residents. Additionally, regulatory and reporting requirements continue to become more stringent,

increasing the cost of compliance and requires additional staff to fulfill these requirements. To compound this, it can be very difficult to attract qualified staff to regional centres making it very difficult to fulfill Council requirements.

Councils have continually increased costs related to the operation, maintenance and the upgrading of infrastructure. For example, the cost of chemicals for water treatment have risen substantially, as have electricity prices for the operation of key assets like treatment plants and pump stations. These costs continue to increase at rates higher than increases in water and sewer charges that we can pass on to our customers.

As detailed in the discussion paper, pensioner rebates are applied to water and sewer accounts and while these have 55% state subsidy, there are aging populations in regional areas and the state subsidy has not increased since 1993. This has increased the portion funded by Council. The issue paper also notes the potential expansion of rebates to renters, healthcare card holders and low-income earners. Any subsidies of this nature would need to be fully covered by the NSW Government to ensure Council remain financially sustainable.

Council uses loans for the construction of new infrastructure where it is within our ability to service these loans. As a Council we actively apply for grants to assist in funding capital works projects. To date, we have been successful in receiving grant funding for many of Council's larger water and sewer projects, mainly through federal government funding. This has enabled Council to deliver these projects for our community. In recent years, Council has not been successful in obtaining funding for larger projects through the Safe and Secure program as funding.

Goulburn Mulwaree Council is an active member of the Canberra Region Joint Organisation. Collaboration, while within the scope of joint organisations, will not provide the day to day operational and maintenance support for Councils. They certainly could have a role in group procurement, training and collaboration however specific operations and capital works are best placed with water utilities.

The requirement to meet Health based targets in the Australian Drinking Water Guidelines was mandated through the Public Health Act. Although this addresses water quality concerns, it adds costs to councils, particularly those with highly disturbed catchments. This adds additional treatment requirements for Council to meet for existing and new facilities requiring additional capital works and subsequent additional operational costs.

The issues paper suggests that a postage stamp approach for charging residents should be considered. This means of charging for cost recovery is not be appropriate for all regional centres. All schemes have different operating costs, based on their individual circumstances, and this would seem to be an attempt to provide cross subsidies between Councils.

For regional water utilities, it is difficult to access suitable training for staff. There is limited training available for water utilities specific to their needs, for instance, training to handle chlorine gas. There is a low number of qualified trainers available statewide and where training is available, it tends to be centred in Sydney or comes at a cost to bring the training to regional areas.

Another big driver is inflation and the general increased cost of providing water and sewer services. Chemical and electricity costs have seen the largest increases in cost. It is increasingly difficult to stay on top of increasing costs.

Assistance from the State Government is required to ensure the financial sustainability of regional water utilities to meet continually increasing requirements. This could also include the provision of expertise to assist in optimising operations through efficiency savings. Consideration also needs to be given to providing assistance based on scheme size rather than utility size to ensure equity.

Thank you for the opportunity to make this submission. This report has discussed current options for funding water utilities, eg loans and charging for full cost recovery, however has not developed any new means of improving financial sustainability for water utilities. Council will be keen to further participate in following stages of this review to explore new initiatives to assist in funding the sustainability of Local Water Utilities.

Yours faithfully

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