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TWEED SHIRE COUNCIL

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Tweed Shire Council has a long-term financial plan in place for its water supply and sewerage services that can theoretically be delivered without the need for external funding. This plan already includes internal Community Service Obligations (CSO) across the range of communities serviced within the Tweed Local Government Area (LGA) and has several significant sensitivities and underlying assumptions that are important in the context of this review. These are briefly outlined as follows;

- Assumes the servicing of only identified planned and zoned residential and employment lands and does not allow for expansion of these areas or for major intensification of development within existing serviced areas.
- Assumes a rate of Developer Contributions income to cover significant up front capital costs and borrowing costs associated with servicing the identified future development areas, with this income source and rate of development proving to be volatile and out of Council's control.
- Due to constraints imposed by the NSW Government's guidelines for Developer Contributions, there are significant cross-subsidies for developers that need to be met by existing customers.
- Includes significant operational cross subsidies (akin to a Community Service Obligation) with the more densely populated areas such as Tweed Heads and Banora Point subsidising the smaller rural communities such as Uki and Tyalgum to keep pricing and contributions consistent and equitable across the LGA.
- Requires existing customers to subsidise pensioner rebates due to partial funding only being provided by the NSW Government based on historic 1993 values that have not been indexed.
- The plan does not include allowances for unplanned capital works for upgrades or improvements required due to changes in legislative or regulatory standards or climate change adaptation, which is already impacting on the plan with the need to now raise the Murwillumbah water supply weir on the Tweed River due to saltwater ingress starting to occur.

This shows that even for the larger non-metropolitan LWU's who are achieving full cost recovery such as Tweed, there is still a level of risk and uncertainty. There are also vulnerable communities and groups such as pensioners within the customer base of a LWU of this size that need to be considered in the context of the review of alternative funding models for LWU's to ensure equitable treatment when compared to their metropolitan counterparts.

Pensioner rebate subsidies received by Tweed water and sewer funds for 2022/23 were $705,000. This represents 55% of the total rebate, which leaves the remaining $577,000 to be paid for by the existing customers to cover the capped pensioner rebate amount of $175 per household. When this is compared to the figure cited by the Commission in the Issues Paper of $390 per connection which includes CPI indexation, this equates to an annual figure of $2.15 million which is currently being funded by existing customers to cover the shortfall in pensioner rebates when compared to the State-Owned Corporations (SOC's) where it is fully funded by the State Government. This inequity should be eliminated as an early action from this review, with the NSW Government fully funding the pensioner rebates for all LWU's across NSW consistent with the assistance provided to the SOC's and their customers.

The Developer Servicing Plans (DSP) for water supply and sewerage in the Tweed Shire apply a single uniform shire-wide Developer Charge for water supply and sewerage in accordance with the DCCEEW 2016 *Developer Charges Guidelines for Water Supply, Sewerage and Stormwater*, which results in Developer Charges that are lower than the calculated cost of servicing development for some service areas. This means that existing LWU customers will subsidise part of the costs of development in higher cost areas.

The water supply Developer Charge results in an average cross-subsidy for developers of $580 per ET (2019$) being a cross-subsidy from the medium-term water supply typical residential bill (TRB) of $10 (2019$) per assessment or approximately $75,000 per year.

The sewerage Developer Charge results in an average cross subsidy for developers of $1,083 per ET (2019$) being a cross subsidy from the medium-term sewerage TRB of $18 (2019$) per assessment or approximately $130,000 per year.

This cross subsidy comes about because of the Guidelines and their restrictions on assets and costs to be considered when calculating Developer Charges and the application of a discounted reduction amount across the service areas. Some headworks assets built over 30 years ago are not permitted to be included, neither are borrowing costs such as interest payments, and the NPV is expected to cater for 30 years population growth but only considers 10 years' worth of projected costs. These factors artificially reduce charges and limit the LWU's ability to recover costs from property developers, leaving the existing LWU customers to fund the difference. Any guidelines for this purpose either need to allow a LWU to fully recover these costs from development at their own discretion or provide a subsidy from the State Government to cover any revenue shortfall.

These are examples of where external constraints or inequities exist that limit the capacity of a large LWU like Tweed Shire Council to reach the point where they can be fully financially sustainable without external assistance. These also show the existing internal CSO's and cross subsidies that a LWU's customers are expected to pay for under the current funding model. Whilst the source of funding for any additional statewide CSO is not covered in the Commission's Issues Paper, there is no capacity for even a large LWU such as Tweed provide a CSO for other parts of the state. Tweed Shire Council's position is clear, that any CSO payments that may be proposed as part of this current review will need to be funded by the SOC's or through the NSW Government if they are to be successful and not apply additional strain on regional LWU's.

Background

It is important as background to provide context in relation to previous reforms affecting Local Water Utilities in regional NSW. Prior to 1996, the strategic planning, major project development and delivery, operator training and oversight were managed by the NSW Government on behalf of LWU's through NSW Public Works, with assistance from NSW Public Health. This was in recognition of the need for a specialist body to support Councils and to deliver on the NSW Governments programs for providing water and sewerage services across NSW.

In 1996, the NSW Government implemented major reforms to the way LWU's operate, which provided a clear focus on the water and sewerage services operating as stand-alone self-funded businesses and sought to improve the capacity and capability of LWU's to develop and operate sound and affordable water supply and sewerage services in regional New South Wales. Much of the previous direct support was replaced with a Best Practice framework that required LWU's to have strategic plans, long term financial plans, user pays pricing, developer contributions, drought management plans and ongoing performance monitoring in place. Compliance with the best practice framework was also used as prerequisite for funding eligibility for the Country Towns Water Supply and Sewerage Program which funded the backlog of projects that existed at the time, with LWU's expected to fund future projects to cater for growth and service level improvements.

These reforms provided a paradigm shift and saw marked improvements in the overall management and delivery of services across the majority of LWU's. Despite these reforms, there remains a number of smaller and remote LWU's that have struggled to obtain the independent self-sustaining outcomes that the majority of the larger LWU's have been able to achieve. There also remains a number of smaller communities that are not provided with water supply and sewerage services.

The NSW Government's Integrated Planning and Reporting Framework came into practice in 2009 and has effectively expended the principles of best practice management applied to water and sewerage services, to the full range of services provided by all Councils in NSW.

Since then, there have been attempts to address this disparity through analysis of structural reforms such as the work of Armstrong and Gellatly in 2008 with the *Report of the Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW*, and the NSW Government's "*Fit For The Future*" program which focused more broadly across all aspects of sustainability and capacity of Local Government following the Independent Local Government Review Panel's work in 2014/15.

It is also important to note that Councils and LWU's across regional NSW have utilised a range of existing structural and collaborative frameworks to gain access to economies of scale where they are practical and achievable. Models such as County Councils, Water Alliances, and Joint Organisations of Councils are used across a large number of LWU footprints and provide a flexible range of choices that can be developed to suit the specific needs of a group of LWU's. In this regard, there should be no need to make any further attempts to force structural reforms on LWU's as part of this current review, although the need for collaboration and coordination between LWU's and the various NSW Government agencies and State-Owned Corporations should continue to be encouraged.

Discussion

Based on the work done by the NSW Productivity Commission in preparing the *Alternative Funding Models for Local Water Utilities Issues Paper*, it would appear that the case has been made for an alternative funding model that provides assistance to those LWU's in non-metropolitan NSW that face the most disadvantage, being those that have;

- Higher than average typical customer bills, and
- Higher levels of socio-economic disadvantage,
- Low population densities and limited access to economies of scale,
- Lower service levels than the metropolitan areas.

LWU's across regional NSW face the following three main issues to varying degrees, with some commentary provided in relation to each.

1. **Reduced access to economies of scale due to lower population densities and remoteness**
    - This is generally out of the control of the LWU and leads to higher per connection costs with a wide range of variables and external drivers influencing these costs.
    - This will often result in low levels of financial sustainability when combined with other elements of socio-economic disadvantage.
    - Where opportunities for collaboration exist to create economies of scale you will often find a County Council, functioning water alliance, or Joint organisation of Councils already established with LWU's working together.
2. **Limited capacity to plan and deliver major more complex projects.**
    - This is under the control of the LWU to some extent, but many challenges could be overcome through support from the SOC's, DCCEEW and organisations such as the NSW Water Directorate and Public Works Advisory
    - To address this issue, the state agencies and regulators will be required to commit to a coordinated whole of government approach to regulating LWU's and delivery of services to regional and remote communities. This includes funding and support being tied to any regulatory action so that the requirements of the regulation can be fulfilled.
    - Most long term strategic and financial plans still assume a certain level of external funding and support for major projects. Access to an ongoing program for capital funding should remain available to all LWU's, even if based on a positive cost benefit analysis or risk reduction eligibility process for the larger LWU's. The NSW Government and Australian Government should both be looking on the return on investment for water and sewerage projects that facilitate industry and enable population growth as well as supporting LWU's who face financial sustainability challenges.
3. **Lack of locally available expertise to optimise performance of current systems.**
    - This is under the control of the LWU to some extent, however there is an industry wide skills shortage and workforce challenges that need to be addressed to the benefit of all LWU's, and there is a distinct role that needs to include support from

the SOC's, DCCEEW, the NSW Water Directorate and Public Works Advisory being available to all LWU's to address this issue in the longer term.

- Valuable existing programs are in place that can assist with this issue through DCCEEW Regional Inspectors, Advanced Operational Support, Operator Training and Regional Engineering teams, NSW Health Drinking Water sampling and testing programs, and previously for Dam Safety and Surveillance programs. However, there is a need for these programs to be adjusted to better suit the current operating environment for all LWU's and to better focus this support so it is accessible for those LWU's who need it most, for example through on-line access to training and technical assistance.

Response to Issues Paper Questions

The Issues Paper provides a series of questions the Commission is seeking feedback on. Responses to these questions are provided as follows.

Challenges from current funding models

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

   The community's ability to pay is the main factor, with smaller LWUs having the highest typical residential bills. To some extent the communities willingness to pay is also a factor due to their perception of the value of the utility service provided when compared to the full range of utility services needed for each household.

   Climate impacts on water usage – the local climate gets drier as you move inland, and wetter as you head towards the coastal areas, with drought and extended wet weather both having an impact on costs and revenue.

   Recovery from bushfire and flooding – water and sewerage infrastructure is not eligible under DRFA unless the charges are less than 50% of the cost of delivering the service, which goes against the principles of financial sustainability under the Best Practice and Regulatory Assurance frameworks. DRFA will fund emergency works to restore services but not restoration of assets as water and sewerage are considered businesses that can carry risk and raise additional funds as charges are not capped. Clearly this is not true for all LWU's.

   There are operational costs and costs associated with renewals, upgrades, improved service levels, risk mitigation, disaster recovery and catering for population and industry growth and many of these costs result from things outside the LWU control. If costs are broken down in more detail then an assessment can be undertaken as to what costs are outside the LWU's control. The support should initially be targeted at those things the LWU has no control over.

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?*

   The distance from a water source or the terrain (length of mains, pumping costs) can greatly increase the costs of water supply and sewerage services. Location as well as

scale impacts not only capital costs, but also operating and maintenance costs such as servicing and chemical supplies, particularly with respect to transportation costs.

The level of service provided to the customer can vary greatly between one LWU to the next.

Per capita cost comparisons are simply more volatile for small populations, and a deeper analysis is needed to understand those areas of volatility and the external drivers that influence them.

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

Safe and Secure Water Program risk scores are skewed to reduce the maximum risk that can be applied to smaller populations, and therefore limiting eligibility due to funding program limits. This does not provide a genuine picture of risk, merely a process for ranking established for a one-off program and done so without responding to feedback from LWU's at the time. The funding ratios are also fixed based on revenue from the water and sewerage businesses and do not necessarily reflect the true value of the investment in the LWU. The SSWP itself does not seek to reduce risks across all LWU's to a particular or acceptable level, or to establish the data needed to assess the cost of doing so, it is designed merely to prioritise the funding already allocated.

Most other external funding programs are competitive and based on the need to generate a positive Cost-Benefit ratio, and/or contribute in the order of 50% of the total project costs. This severely limits access to these programs by regional and remote LWU's or for smaller communities within the larger LWU footprints.

Significant resources and high costs associated with the engagement and management of state-owned agencies like Public Works Advisory, who used to assist LWU's as part of the government support pre-1996, and Dam Safety experts due to the loss of assistance from the former Dams Safety Committee with the introduction of Dams NSW.

Significant overheads and business case costs for Water Infrastructure NSW to operate small regional projects and unnecessary administrative burdens on the LWU.

Significant delay in achieving regulatory approval for business case, planning and design stages of projects due to an overly complex regulatory processes across multiple agencies, compounded by conflicting or inconsistent regulatory agency advice during planning assessment/approvals for projects. The industry have previously called for a single regulatory point of authority and jurisdiction that is established based on a partnership with LWU's to deliver services to communities and ensure any other regulatory action aligns with overall Government policy and available funding.

Funding model principles

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

The key task is to find the most equitable way to measure disadvantage, so that any available funding can be distributed on the basis of horizontal fiscal equalisation. A similar

objective is applied to the Australian Governments Financial Assistance Grants, which are paid to councils across the country based on an agreed set of national principles, and the specific formula developed by each states Local Government Grants Commission. The formula and the inputs used, are all transparent and readily available for scrutiny or review. The link below is to the information from the NSW Local Government Grants Commission that provides more detail about how this is done in NSW.
https://www.olg.nsw.gov.au/commissions-and-tribunals/local-government-grants-commission-information-and-key-resources/

The biggest barrier to the successful distribution of funding based on horizontal fiscal equalisation with the FAGs, is the inclusion of a minimum per capita amount in the legislation, that means large rapidly growing metropolitan populations still get a significant share of the funding on a per capita basis. This should not be as significant an issue with the funding of LWU's in regional NSW, but careful consideration should be made regarding the treatment of this in the funding distribution model.

There are three main factors to consider in regard to equitable distribution of financial assistance for everyday operations, if and when it becomes available;

(1) The relative cost of the service (economies of scale or lack thereof)
(2) The community's ability to pay (socio-economic factors)
(3) The level of service provided (residual risks associated with the service level)

In the FAGs example, the GC use things like the SEIFA score and population growth/decline (ability to pay), length of roads/bridges per capita (economies of scale), length of unsealed roads (service level), and remoteness (cost increases), as factors for the roads components. They also look at the cost of a wide range of services, due to the broad scope of the use of the FAGs funding (it is untied to any particular function). In relation to the application of a similar type of model for the LWU businesses of a Council, the likely key factors to consider would be;

- The typical residential bill as a measure of the cost of the service, or alternatively operating cost per connection (or both)
- Length of mains and/or number of pump stations per capita/connection as a measure of access to economies of scale
- Socioeconomic disadvantage as a measure of the community's ability to pay
- Relative remoteness, to reflect the extra cost of doing business in remote areas and the tyranny of distance.

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

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 environments and external factors 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, variations in service levels, and short-term servicing needs such as tourism.

The best evidence of the typical costs for a well-run water utility can be obtained by looking at the current operating costs across NSW and the rate of cost recovery. This data shows that for many of the smaller LWU's facing the most disadvantage, their typical bills are higher, operating costs are higher, and they are still not able to achieve full cost recovery.

There will always be an opportunity for cost savings and efficiencies, however the quantum of such operational savings is expected to be low (in the order of 5%), and this does not consider that many LWU's are delivering a lower level of service already due to funding constraints.

Care is needed when looking at accounting for capital renewal costs as many LWUs, and utilities in general, are faced with the issue of aging infrastructure with looming end of life dates, and renewal accounting using average annual deprecation rates not matching asset life. Often dubbed "the infrastructure cliff", this indicates the current costs for delivering services may not be adequate to account for this imminent peak in renewals costs. The true typical costs of delivery of water and sewerage services are where all asset renewals and upgrades as well as operations and maintenance is taken into account, and requires analysis of longer term data and planned future capital expenditure.

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

There needs to be a cautionary approach to considering any kind of incentivisation. The target LWU's are being considered for funding because of the fundamental challenges they face and their level of disadvantage. In the initial stages of a funding program, participation in collaborative processes around operational performance improvements, staff development, and strategic planning and project development would be appropriate incentives. As the funding program matures, and the specific challenges of each LWU are better known, further incentives could be developed.

The main objective should be focused on incentivising continuous improvement. There is long term performance data available for every LWU in NSW, and this can be used to better understand the key external drivers affecting individual LWU performance, and establish a benchmark to measure each LWU against, as can the level of compliance with the DCCEEW Regulatory and Assurance Framework.

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 application and scope of service levels needs to be better understood before this question can be answered in any meaningful way. There are varying levels of maturity across LWU's in the use and application of service levels and the monitoring of LWU performance. At a fundamental level, the first thing that needs to be considered is how each community is going to be serviced.

There is a need to undertake a comprehensive benchmarking exercise across regional NSW to establish the services that each community can expect, and what both the community and the NSW Government are prepared to pay for. There is always an

element of risk associated with water and sewerage services, and any attempt to determine service levels needs to accept some risk and balance this with the cost and affordability of the chosen service level.

For many communities, a basic service level where the owner provides their own On-Site Sewerage System (OSSMS) and rainwater tanks harvesting roof water, would be acceptable and affordable. Where there are issues with soil types, sensitive environments, drought security or low rainfall, the provision of suitable, customised water supply and sewerage services needs to be decided upon in consultation with those communities, including who is going to pay for the reduction in risk associated with improving service levels. For small and remote communities, levels of service should be defined by the community and not universally adopted by government.

An example of the service level hierarchy for water and sewerage services could be as follows, noting that one community could have a different service level for water than it does for sewer depending on the local circumstances.

Water;

- **Minimum Service Level – owner provided**;
  - rainwater tanks and roof water harvesting or on-site bores
  - Already exists as the unofficial minimum standard for many communities, and suitable in many cases
  - Costs and operations the responsibility of the property owner, with regulation by NSW Health and Councils

- **Minimum Service Level – LWU provided;**
  - If there is an issue with drought security, move to a reticulated raw water (non-potable) water supply for other than drinking water and retain rainwater tanks for drinking to provide a measured level of droughts security. Water supply options may also include LWU provided small scale treatment and transfer (typically tankers) to provide rainwater tank top ups for drinking water purposes only.

- **Medium Service Level;**
  - If there is an issue with rainwater tank reliability or quality, progress to treated water supply for potable purposes, with at least treatment to meet the health requirements of the ADWG

- **High Service Level;**
  - Increased level of drought security, treatment to meet health and aesthetic requirements of the ADWG, but not health-based drinking water targets

- **Ideal Service Level**
  - Water supply with high level of drought security and treatment standards to meet the health-based drinking water targets and all aspects of the ADWG

Sewer

- **Minimum Service Level – owner provided**;
  - OSSMS (septic tank) system
  - Already exists as the unofficial minimum standard for many communities, and suitable in many cases
  - Costs and operations the responsibility of the property owner, with regulation by Councils

- **Minimum Service Level – LWU provided;**
  - If there is a health or environmental issue with OSSMS without an affordable owner funded solution, move to a reticulated system with base level treatment (for example the 30 TSS, 20 BOD, 10 Oils and Grease licence limits).

- **Medium Service Level;**
  - Progress to higher levels of sewerage treatment subject to environmental/community need

- **High Service Level;**
  - Progress to higher levels of sewerage treatment and/or improved disposal options such as partial reuse

- **Ideal Service Level**
  - Sewerage system achieving best practice treatment standards or full reuse and recycling

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

There is a long history of LWU performance data being collected and reported to the regulators (now DCCEEW). Any metrics chosen should align with those that are already being collected to ensure no additional reporting burden, and to enable comparison to long term trends in measuring LWU performance and effectiveness of any alternate funding arrangements.

The existing performance data includes a range of treatment and operational performance metrics, which were previously analysed and reported to the LWUs by the DCCEEW. The data is now available online for access by LWU and other parties, but there appears to be very limited resourcing for data analysis and interpretation by DCCEEW at present. Part of the additional support to LWUs could include assistance with the analysis and interpretation of data, particularly if it is to be used to assess performance or used for incentives in any alternate funding model.

NSW Government agencies provide some assistance in the collection of performance monitoring data, such as the NSW Health drinking water microbiological and chemical testing, and DCCEEW Inspectors testing during water and sewerage treatment plant inspections. Where there are critical metrics for measuring and monitoring performance, these agencies could provide support to some LWU's to ensure ongoing availability of reliable data.

There is no reason the concepts couldn't align with Sydney Water and Hunter Water, but it is imperative that they need to account for matters beyond a LWU's control. For example, upstream catchment water quality needs a whole-of-catchment, multi-agency and community-oriented approach.

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?

The bottom line shown by the data presented in the issues paper, is that these regional and remote communities generally have higher charges per connection, and still have lower levels of cost recovery. This is critical in supporting the case for funding. In the past, the idea that these communities are not charging enough to achieve cost recovery was perceived to be part of the problem. However, the data shows that they are trying their best, particularly considering the ability to pay of the communities they service. It's a real case of the "blood from a stone" analogy.

The cost recovery measures are less drivers of the situation, and more so the symptoms of the problem. The problem being a lack of revenue to deliver services, and the limitations of the community to raise additional revenue. These cost recovery measures are important to understand the problem, to measure performance over time, and in particular, changes to these measures that may eventuate from an alternate funding model, noting that the current data suggests that the current funding model isn't working for many LWU's.

Care must also be taken in using operational costs per connection alone as an indicator of economies of scale or the relative cost of doing business, as the service levels provided may not be comparable. Essentially a decision is often made to do less maintenance, or reduce operational service levels, due to revenue limitations. This lower level of operational expenditure is then not necessarily reflective of providing the desired operational service levels that others with better revenue capacity and access to economies of scale may be providing.

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

The main barrier seems to be the constantly changing standards and regulatory requirements, which are changing at a rate quicker than most LWU's can respond to. There needs to be a more coordinated and efficient approach to the regulation of LWU's across regional NSW to ensure service levels are clear and achievable within the regulatory requirements.

Another barrier is government avoiding being seen as delivering significantly different levels of service that may not appear to be based on equitable access for such fundamental essential services. There needs to be a transparent approach to communicating where it is acceptable for there to be different levels of service provided to different communities based on risk and affordability for all stakeholders.

The expectation that all water use requires potable water can also be a barrier, not just when considering third pipe systems for recycled water which are extremely costly, but also that we treat all water to a high potable standard for uses such as garden watering, toilet flushing and washing clothes. For small and remote communities alternate service

levels or combinations of raw water supplies and smaller potable supplies need to be considered when attempting to establish service levels.

The assumption that a metric can measure service levels across a state could be a barrier of its own. If a move to a customer or community-based approach is considered, communities would be setting service level expectations for their own community and feedback from the community would define performance. Metrics are more valuable in measuring comparative performance of larger urban systems, not regional and remote community systems.

There is a population bias applied in the current risk prioritisation process too, which may or may not be appropriate when looking at the overall risk. Smaller populations are scored at a lower risk level based on their size, rather than the actual risk to that community. In terms of a capital funding program with a focus on addressing risks in larger populations this may be suitable, but in assessing the overall risk across regional NSW it does not appear to be equitable.

The health and environmental risk measures are also important in establishing a base line for service levels, and the need for any improvements to these to obtain a minimum standard, and/or or an acceptable risk. The DPIE Risk Prioritisation and Scoring methodology used to score risk at present does not appear to be reflective of what the NSW Government is prepared to pay for. In the case of both the EPA and NSW Health, we have seen in the past a somewhat ideological level of service, standard, or risk appetite applied. This may be something we can all aspire to, but if it isn't something government is prepared to help pay for, then we shouldn't be using these as a measure of inherent or residual risk. For example, if government is not prepared to invest billions to upgrade every water treatment plant and build new ones for communities with unfiltered water supplies, in order to address a theoretical health-based risk that may exist in certain catchments, then this should not be used to measure what the basic minimum standard is that communities should receive, or the risk of not providing that minimum service. Similarly for the application of licence discharge limits for sewage treatment, where government should be looking for an investment to bring everyone to the minimum standard before any regulatory moves to further reduce the risk for those already receiving a higher standard than that.

In addition to this is the need to acknowledge and consider those communities that are not currently receiving water and/or sewerage services. This is a large scale of problem, that does not get reflected in any analysis of data on the populations that are currently serviced. The scale of this issue needs to be quantified and a decision made on just how many of these communities should be receiving services. The SSWP/ERIL Risk process has identified most of these communities where a service has already been proposed, but there needs to be a further review of this to ensure we have captured the full extent, then a process implemented to decide who should get what services and how they will be funded. This would be based essentially on the cost/feasibility of serviced properties, versus on site sewerage and/or tank water supplies at a fundamental level, understanding that in many cases the costs per capita would be prohibitive for the community to fund on their own and considering combined supply options such as raw water supplies and small-scale potable supplies for drinking water only.

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

The primary challenge is the cost and capacity to measure and report on the chosen metrics and the subsequent quality and reliability of the data provided.

Then there is the challenge of contextualising data against the operating environment faced by the LWU and the specific local challenges, to ensure that there is an equitable comparison being made.

The "hidden" side of the situation, that isn't immediately obvious from this data, is that these communities are also often provided with a lower level of service than those in the better performing LWUs. Some of this is capital in nature (size of dam, type of treatment, extent of population serviced etc) and some of this is also operational in nature (how often hydrants might be inspected, valve manipulation programs, mains flushing, preventative maintenance versus run to failure etc). Basically, many LWU's are only doing what they can afford to do, not what they should or want to do. This only serves to reinforce the case for funding support, but may need to either be quantified, or at least acknowledged when comparing data and putting the case to government.

Alternative funding options

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

The goal should be for all communities to have access to safe and affordable water supply and sewerage services across NSW that meets the specific needs of a community, with customer costs able to be reasonably met by that community and comparable to their metropolitan counterparts. In achieving this there needs to be a clear understanding of what service level is to be provided to each community and how it is to be funded.

Recognition that context is the key here, and one size does not fit all in regulating LWU performance or in the provision of services to each specific community. There is significant diversity in operating environment for LWU's in regional NSW and a large disparity in the service levels delivered to communities across regional NSW. Community input into defining appropriate service levels is essential in very small and remote communities.

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

Debt is often underutilised by LWU's due to the perceived long term financial and political risks to a small LWU, particularly those where operating costs are already high, and the cost of borrowings will add to these significant costs for a long period of time

Debt taken on by LWU's affects the whole council's financial bottom line. In 2015/16 this affected Fit for the Future metrics that drove amalgamation of councils.

The size of 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

The risk around the timing of a return on investment for projects that require borrowings and include a component to be funded by Developer Contributions, due to lack of

control over the timing and completion of further development and the associated contributions revenue.

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

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

Infrastructure standards could be developed to better protect communities and improve resilience to these risks, acknowledging that climate in dryer areas presents a higher demand for water which is a factor of location not LWU size or scale.

Access to external grant funding focused on addressing climate risks and without the current barriers of competitive programs with large co-contribution requirements for smaller and remote LWUs or those at highest risk from climate change impacts and disaster vulnerability which the LWU cannot control and must adapt to.

The grant system to assist communities across government is broken, as it is designed to suit the needs of State and Federal Government and political objectives but doesn't meet the needs of communities and Councils. Most grant programs are narrowly focused, don't necessarily align with our community strategic plans or needs, there are too many of them with varying levels of justification and administration, they are mostly competitive and often require significant co-contributions, and there is a lack of certainty of success. The emphasis should be on more flexible programs with wide scope to allow for specific community needs to be met, and with set funding amounts and extended time periods that allow for improved resourcing and delivery planning. Examples of programs that provide some elements of an ideal funding program are the NSW Governments Stronger Country Communities Fund (SCCF), and the Australian Government's Local Roads and Community Infrastructure Program (LRCIP) and Roads to Recovery (R2R).

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

There is a significant inequity in pensioner rebates between the two SOCs of Sydney Water and Hunter Water, and the regional LWUs. The issues paper notes that the SOCs have $650 and $380 pensioner rebates respectively, which are both 100% covered by the NSW Government through a CSO payment, yet 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 the Issues Paper notes that if this rebate had been increased with CPI it would be worth around $390 per year in today's dollars. The NSW Government should fully fund the pensioner rebates for all LWU's across NSW consistent with the assistance provided to the SOC's and their customers.

There are other significant risks for LWUs based on factors such as:

- When LWU's take on large new assets there are increased costs of operation, depreciation and servicing of borrowings that need to be covered with higher customer bills at present.
- The 'infrastructure cliff' that can eventuate when a town that was provided with services via donated assets at a point in time some decades ago reaches the point where the assets are nearing 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?

There are many examples of successful regional collaboration across regional NSW using County Councils, JO's or alliances. The Central NSW Joint Organisation water utilities alliance, and Orana Water Utilities Alliances have been very successful in their regions.

The NSW Water Directorate is an example of a collaborative organisation open to all regional LWU's that has been operating for 25 years and provides technical support and advocacy in partnership with LGNSW.

Challenges are insufficient resources and funding to promote regional collaboration, as well as the fragility of the political will to drive and facilitate regional collaboration.

Regional collaboration can be beneficial in reducing cost by sharing some skills and resources, however the challenges are still that water and wastewater is an incompressible fluid that is infrastructure intensive to treat and transport. Hence regional collaboration cannot fundamentally shift the cost of servicing regional and remote areas.

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 SOC's need to have a clear role and mandate to assist LWU's and the mechanism in place for this support to be provided quickly when needed at an officer level.

Assisting LWU's is (mostly) not clearly authorised for SOC's through instruments such as their Operating Licence as it isn't 'core business' for the corporation

There is a lack of problem definition – clearly defined strategies and assistance programs that inform SOC's on LWU needs and appropriate resources to provide the targeted support.

One possible mechanism for sourcing funding for LWYU's would be to apply a dividend to the SOC's that is quarantined for distribution to LWU's.

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

The existing Aboriginal Community Water and Sewerage Program is a successful collaboration between the LALC's, DCCEEW and LWU's. This program provides a

platform for exploring further partnerships and integration with LWU's and regional collaborations to deliver improved service levels and increase aboriginal participation in these programs with further support.

Thank you for the opportunity to provide a submission to the issues paper and the review. For further information or clarification, please contact Graham Kennett, Coordinator Strategy and Business Management Water and Wastewater Division [redacted]

Sincerely,

[redacted]

Graham Kennett

Coordinator Strategy and Business Management