

5 April 2024

Mr. Peter Achterstraat AM
NSW Productivity Commissioner
Local Water Utilities Review
Submission sent via email to: lwureview@treasury.nsw.gov.au

Dear Mr. Achterstraat

Submission from the Riverina and Murray Joint Organisation on alternative funding arrangements for Local Water Utilities

Please accept this submission from the Riverina and Murray Joint Organisation (**RAMJO**) which comprises 11 Regional councils within the Riverina and Murray Region, spanning an area of over 80,000 square kilometres. RAMJO's vision is for our member councils to collaborate effectively through strategic planning, priority setting, advocating, engaging with Governments and key stakeholders, so as to facilitate infrastructure development and ensure long term sustainability, wellbeing and liveability of the region's communities, thus, it is critical for us to provide this submission for your consideration.

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

The ability of local water utilities to recover operational and maintenance costs through user charges is significantly influenced by several key factors. Firstly, climate variability, including periods of drought and excessive rainfall, directly impacts water usage patterns and thereby affects revenue.

Secondly, the utilities face high fixed costs, encompassing depreciation and servicing borrowings, which remain constant regardless of water consumption levels. Additionally, recovery efforts from bushfires and flooding pose financial strains, as water and sewerage infrastructure repair costs are not covered under the Disaster Recovery Funding Arrangements (**DRFA**).

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?

There exists noticeable variability in cost recovery levels among local water utilities of comparable size and geographical settings. This discrepancy can be attributed to several factors. The logistical challenges and operational costs escalate with the need to service dispersed populations over long distances, introducing significant inefficiencies. Small utilities experience diseconomies of scale, as the per capita investment in water and sewerage assets becomes disproportionately high. Furthermore, utilities located further downstream in inland NSW encounter more severe water quality issues due to the arid climate, exacerbating operational

challenges. The small population base of these utilities leads to greater volatility in per capita cost comparisons, further complicating financial stability.

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

Securing funding for the upgrade and investment in water and sewerage infrastructure presents multiple challenges. For example, the eligibility criteria under the Safe and Secure Water Program (**SSWP**), particularly the ERIL rules for populations under 2,000, restrict access to necessary financial resources. Additionally, the administrative overheads and the extensive business case requirements imposed by Water Infrastructure under the NSW Department of Planning and Environment (**DPE**) for managing small regional projects, introduce significant financial and operational burdens. The process is further hampered by prolonged delays in obtaining regulatory approvals at the business case, planning, and design stages. Furthermore, this situation is exacerbated by conflicting advice from regulatory agencies during the project assessment and approvals process, creating uncertainty and hindering project advancement.

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

In determining the allocation of government subsidies for local water utilities (**LWU's**), several critical factors warrant consideration to ensure equitable and effective support. The socio-economic status of the communities served by the LWU's should be a primary consideration, reflecting the community's capacity to bear water and sewerage service costs. Additionally, the risk of service level failure, juxtaposed against the LWU's ability to self-fund solutions, underscores the need for targeted financial support. The inherent challenges associated with delivering services in remote areas of NSW, including elevated operational and capital delivery costs, must be factored into subsidy calculations.

Lastly, an LWU's capacity to execute operational and capital projects efficiently should influence the subsidy amount, ensuring funds are utilised where they can achieve the most significant impact.

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

Identifying a 'typical' cost for delivering water and sewerage services is challenging due to the vast diversity in operational environments that LWU's operate within, which are largely beyond their control. Factors such as geographic distances between population centres, climate variability, hydrology, shared water source management, and the infrastructure required per capita contribute to significant variations in service delivery costs. Additionally, transient servicing needs, such as those driven by tourism, further complicate the ability to define average or median costs. This variability underscores the necessity for a flexible and nuanced approach to financial planning and subsidy allocation for LWU's.

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

To ensure that government funding effectively drives performance improvements and delivers value for money to customers, the establishment of specific indicators is essential. These indicators should incentivize continuous improvement in water and sewerage service delivery, recognizing the significant impact of climatic conditions on year-to-year performance. By focusing on long-term trends and encouraging LWU's to excel beyond their previous achievements regularly, these performance indicators can foster a culture of excellence and efficiency within the sector.

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?

In consideration of whether minimum service levels should be uniformly applied across all towns within the service areas of LWU's, irrespective of their size, remoteness, or associated cost, it is crucial to address the potential implications of data aggregation on service transparency and equity. Aggregating performance data at the utility level poses a significant risk of obscuring service deficiencies in smaller towns or schemes, should these be counterbalanced by superior performance metrics in larger towns. Such an occurrence would not be acceptable from the perspective of ensuring equitable service delivery to smaller communities, which are equally reliant on the water utility for essential services.

Nonetheless, the aggregation of costs presents a different consideration. There is a strong argument to be made for equalizing the financial burden across communities served by a single utility, irrespective of their size or geographic location. This approach would ensure that smaller towns are not disproportionately affected by higher service charges, which could exacerbate socio-economic disparities between communities. Consequently, while performance metrics should be carefully evaluated to prevent the masking of service failures in less populous areas, the principle of cost aggregation could be employed to foster a more equitable distribution of financial responsibilities among all towns within a utility's service area.

This nuanced approach acknowledges the complexities inherent in delivering water services across diverse communities while striving for a balance between transparency, equity, and financial sustainability within the framework of minimum service level provision.

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

In establishing the metrics that should inform the minimum service levels for LWU's, it is recommended that these metrics align with the established practices of Sydney Water and Hunter Water, reflecting a standard of excellence in service provision. However, it is crucial to recognize and accommodate the unique challenges and variables that may lie beyond the direct control of an LWU. One such significant factor is the quality of upstream catchment water, which can have a profound impact on the utility's ability to consistently meet minimum service standards. Addressing this issue effectively requires a comprehensive, whole-of-catchment approach that transcends individual utility boundaries. It necessitates active collaboration and

coordination among multiple agencies and stakeholders, including local communities, to implement sustainable water management and quality improvement measures. Therefore, while striving for alignment with the service standards of Sydney Water and Hunter Water, it is imperative that the metrics for minimum service levels are designed with flexibility. This flexibility should allow for the consideration of external factors such as catchment area conditions, promoting a multi-agency and community-oriented strategy to water quality and service level management. Through such an integrated approach, LWU's will be better positioned to achieve and maintain the desired standards of service for all communities they serve, notwithstanding the challenges posed by environmental and operational factors outside their immediate control.

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 examination of existing evidence concerning the current basic service levels, alongside the customers' needs for these minimum service levels and their willingness to pay in regional and remote communities, reveals significant gaps in publicly accessible information. It underscores a fundamental need for transparency and accountability among LWU's. To bridge this information gap, it is proposed that LWU's be mandated to regularly publish detailed reports on their performance metrics and strategic planning initiatives. This action would not only foster a culture of transparency but also enhance community engagement by keeping the public informed and involved in decision-making processes related to water service provision.

Furthermore, the challenge of conducting customer surveys in smaller populations must be acknowledged. Traditional survey methods often yield results that are not reliably reflective of the community's actual needs or preferences, due to the inherent difficulties in achieving a representative sample size or the potential biases in survey responses. This challenge necessitates the exploration and adoption of alternative methods for gauging customer satisfaction and service expectations. These methods could include more qualitative approaches, such as community meetings, focus groups, and other forms of direct engagement, which may provide deeper insights into the community's needs and expectations regarding water services.

In light of these considerations, it becomes evident that a more nuanced approach to understanding and meeting the water service needs of regional and remote communities is required. Such an approach should prioritise the accessibility of utility performance data and embrace innovative strategies for customer engagement, thereby ensuring that service levels are not only maintained but also aligned with the genuine needs and financial capacities of these communities.

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

In the quest to establish measurable service levels for LWU's, several significant barriers emerge, primarily centred around the current state of infrastructure and the utilities' financial and technical capacities. A comprehensive understanding of these capacities is crucial to defining achievable and sustainable service levels. As such, the initiation of a State of the Assets report becomes an indispensable step. This report should encompass a detailed assessment of both the technical and financial performance of the LWU's, thereby laying a

foundational understanding of the existing infrastructure and the resources available for its maintenance and improvement.

Concurrently, it is imperative to address the principle of equity in service provision. The notion that there could be vastly divergent levels of water service in different parts of Australia poses a fundamental challenge to the core value of equitable access to essential services. The disparities in service levels, particularly between urban and regional or remote communities, highlight a critical area for policy intervention and strategic planning. Ensuring that all Australians have access to a basic standard of water and sewerage services, regardless of their location or the size of their community, is not only a matter of infrastructure investment but also of social equity and justice.

Therefore, overcoming the barriers to setting measurable service levels necessitates a twofold approach. Firstly, a detailed and transparent reporting mechanism must be established to accurately gauge the current capabilities of LWU's. Secondly, a firm commitment to the principle of equity in service provision must inform all strategic and operational decisions, ensuring that the basic human right to clean water and sanitation is upheld across the entire country. This approach will pave the way for the development of realistic, achievable service levels that reflect both the technical realities and the ethical imperatives of water service provision in Australia.

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

Monitoring and reporting against established minimum service levels present a multifaceted challenge for LWU's, encompassing issues related to cost, capacity, data quality, and the necessity of contextualizing data.

Firstly, the financial and logistical capacities required for comprehensive monitoring and reporting efforts can be substantial. LWU's, particularly those serving smaller or more remote communities, often operate under tight budgetary constraints, making the requisite investment in monitoring technologies and personnel a significant barrier. The capacity to consistently measure performance against service standards requires not only financial resources but also skilled personnel to manage and interpret the data collected.

Secondly, the quality of the data collected is paramount to effective monitoring and reporting. This includes the accuracy, reliability, and timeliness of data, which are critical for assessing service level compliance and identifying areas for improvement. Ensuring high-quality data collection and management processes is essential but can be challenging due to technical limitations, environmental factors, and human error.

Lastly, the complexity of the operating environment for each LWU requires that data be contextualized appropriately. This means understanding and accounting for the unique geographical, environmental, and social factors that impact service delivery in different areas. For example, extreme weather conditions, geographical remoteness, and varying customer demand patterns can all influence a utility's performance against its service levels. Properly contextualizing data ensures that performance assessments are fair, accurate, and reflective of the LWU's operating reality.

Addressing these challenges necessitates a comprehensive approach, including investment in infrastructure and training, the development of robust data management systems, and a nuanced understanding of the operational context of each utility. Overcoming these barriers is critical to ensuring that LWU's can effectively monitor and report on their service levels, thereby maintaining high standards of water service delivery and accountability to the communities they serve.

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

The primary desired outcome is the acknowledgment that the diversity of operating environments across regional NSW necessitates a flexible regulatory approach. A one-size-fits-all methodology is inadequate for evaluating the performance of LWU's. Recognition of the unique contexts in which these utilities operate is essential for fair and effective regulation and support.

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

Several key obstacles hinder the greater use of loans from financial institutions for funding infrastructure investments in water and sewerage services. These include:

- The impact of LWU debt on the broader financial standing of their respective councils, particularly in light of metrics used for evaluating council performance and sustainability;
- The relative size of the LWU and the scale of debt required for major projects, which can be disproportionate and thus financially risky; and
- A general underutilization of debt financing due to perceived long-term financial and political risks, especially for smaller LWU's.

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

Investment planning that accounts for climate change risks and the ongoing costs of infrastructure maintenance could be driven by:

- State-led initiatives like AdaptNSW, which assess the impacts of climate change on infrastructure through comprehensive initiatives such as the Cross Dependency Initiative (XDI); and
- The development of infrastructure standards that specifically incorporate considerations for climate resilience and cost management.

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

Individuals most at risk from high water bills include those in communities where LWU's face:

- Increased operational costs following the acquisition of large assets;

- The "infrastructure cliff" scenario, where legacy assets simultaneously reach the end of their useful life;
- Costs associated with disaster recovery; and
- Rising service level demands driven by regulatory changes.

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?

Examples of regional collaboration include the Central NSW Joint Organisation and the Orana Water Utilities Alliance. While county councils could facilitate collaboration, challenges often arise from limited resources and funding, hindering the effectiveness of these regional partnerships.

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

Challenges for LWU's in leveraging the scale and expertise of SOC's include:

- A lack of clear authorization for SOC's to assist LWU's, as such support is not considered core business under existing operating licenses; and
- The absence of well-defined problems and strategies that would guide SOC's in addressing the needs of LWU's.

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

- Continue and expand the Aboriginal Communities Water and Sewerage Program (ACWSP); and
- Address gaps where LWU's are unable to meet service levels required by these communities, ensuring equitable and sustainable access to essential services.

Thank you for allowing RAMJO the opportunity to provide this submission. Should you wish to discuss any of the points raised further, please do not hesitate to contact me on [REDACTED]

Sincerely

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Yvonne Lingua
Executive Officer
Riverina and Murray Joint Organisation