AUSTRALIAN WATER ASSOCIATION

5 April 2024
NSW Productivity Commission
Response to Issues Paper – Alternative Funding Models for Local Water Utilities
By email to: LWUReview@treasury.nsw.gov.au

Australian Water Association Response to the NSW Productivity Commission Issues Paper: Alternative funding models for local water utilities

The Australian Water Association (AWA) is appreciative of the opportunity to contribute a submission in response to the *'Alternative funding models for local water utilities'* Issue Paper released by the NSW Productivity Commission.

Alongside the NSW Government, AWA is committed to working with our members and communities to strengthen and increase the sustainability of current Local Water Utility funding models, with the goal of achieving a sustainable and safe water for NSW communities.

Who we are

The Australian Water Association (AWA) is Australia's largest water network. We provide individuals with career enrichment and organisations with business development opportunities as we share information and knowledge, connect members with industry and stakeholders, and inspire a sustainable water future. Through our extensive range of technical seminars, courses, and conferences, we provide a forum for debate and best practice dissemination at a state, national and international level.

AWA is committed to building Australia's water capabilities to maintain its position as a world leader in water management. AWA is a leader in international collaboration and networking in water, delivering a range of initiatives that showcase learnings from Australia's water reform journey, and create opportunities for the Australian water sector.

Our members

AWA's members cover every facet of the water sector, including professionals and practitioners working in utilities, government agencies, engineering, urban design and planning, science, research, academia, energy, resources, manufacturing, mining, and agriculture.

Our purpose

AWA aims to inspire and drive a sustainable water future where water is recognised by all as essential to economic prosperity, health, the environment, and First Nations' connection to Country.

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AWA Response to the NSW Productivity Commission Issues Paper

Challenges from Current Funding Models: Cost Recovery, Service Variability, and Funding

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

Multiple variables impact local water utilities' (LWU) ability to recover costs through user charges, affecting their financial sustainability. These factors include climate impacts on water usage, such as droughts and wet weather, which affect demand and therefore the revenue collected through usage charges and system performance. Climate extreme events like bushfires and floods also impact infrastructure, further complicating cost recovery efforts. Additionally, high fixed costs due to the infrastructure heavy nature of water service provision and depreciation of long-lived assets, pose challenges to cost recovery through user charges.

2. What might be reasons for some local water utilities with similar size and remoteness to perform differently in terms of level of cost recovery?

Local climatic conditions, the quality and accessibility of raw water sources, age and condition of key assets, density and distribution of the serviced population, the level of service provided and associated risk appetite will all influence the cost to provide water and wastewater services and therefore the ability of a local water utility to recover costs. The presence of large water users such as heavy industry or tourism can improve socio-economic conditions of the serviced community, as well as impact on the level of service provided and influence the cost recovery approach taken.

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

The capital costs of water infrastructure projects are a small part of their lifecycle costs. Capital investments can impact operational expenditure downstream, potentially leading to increased water prices for customers. Taking this into account, there is a need for robust and comprehensive investment decisions that consider the long-term viability of services and their implications on affordability.

While AWA acknowledges the importance of maintaining government grant cycles, and that there has been progress in providing funding opportunities for underperforming utilities, development of additional options that better meet the needs of these LWUs is necessary. For

regional and remote services that are underperforming, the introduction of transparent Community Service Obligation payments may yield improved sustainability. And to increase sustainability of assets, supporting councils to develop and demonstrate long-range strategic plans to which all grant applications are aligned would contribute to the reduction in opportunistic grant applications, ensuring investments are linked to long term infrastructure planning.

There is a need for investment to raise the capability and capacity of LWUs to effectively plan for and operate regional infrastructure. Regional scale planning that considers full lifecycle costs combined with operational capacity-building is needed to ensure that investment decisions are robust and promote water utility business excellence in regional NSW.

Funding Model Principles: Subsidies, Costs, and Performance Improvement Indicators

4. What factors should be considered in calculating government subsidies for local water utilities?
AWA's view aligns with the NSW Water Directorate that in determining subsidies for local water utilities, the following factors should be considered:

- Socio-economic status of customers and community (ability to pay)
- Risk of service level failure compared to self-funding capacity
- Relative cost of services, considering economies of scale and remoteness
- Local water utility's operational and capital work capabilities.

A risk-based approach is key in allocating funds to address the most pressing needs, especially in regions vulnerable to service failures from climate events such as major droughts. Prioritising funding based on the severity of potential impacts is crucial for ensuring the long-term sustainability of water services.

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

As mentioned above factors such as population distribution and density, climate variability, asset age and condition, water source, and topography significantly impact on the overall costs for delivering water and sewerage service, necessitating a nuanced approach to cost assessment and subsidy calculation. This is why simplistic metrics like cost per property alone are not able to paint a full picture of whether a local water utility is operating efficiently.

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

The effectiveness of performance indicators depends on their ability to accommodate the diverse contexts of LWUs and their operating environments. While traditional benchmarking metrics like the costs per connection, length of network, or volume of water supplied or treated are valuable, they should be applied judiciously, considering factors such as scale, operational density, treatment levels, water source, and topography unique to each water service provider.

Minimum Service Levels: Universality, metrics, evidence-base, barriers, and monitoring

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?

As noted in Appendix D of the Issues Paper minimum water service levels are well accepted and applied in other national and international jurisdictions to promote social equity. The size or remoteness of a community can make it challenging and costly to service using conventional approaches however this should encourage more innovative approaches rather than prevent minimum service levels from being applied universally. The minimum service levels should also be developed in accordance with the principles laid out Australian Government's Productivity Commission's 2020 review of the NWI (i.e. based on clear and specific rationale with clear definitions of service, measurable user outcomes and subject to review) and be co-designed with local utilities and in consultation with serviced communities.

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

Minimum service levels should be established based on a clear rationale, ensuring that all communities in NSW receive a defined base level of service, irrespective of the associated costs. This aligns with the concept of a fundamental right to access essential water services.
It is important to differentiate between minimum service levels and utility-specific performance standards. Hunter Water and Sydney Water are examples of differing customer expectations and operational contexts necessitate tailored performance standards, distinct from overarching minimum service benchmarks:

- Different dimensions of service, including water quality, water security, environmental impacts, and network/asset performance, must be clearly defined. Compliance thresholds for each dimension, specifying the frequency of compliance assessment, to ensure accountability and consistency.
- Consideration should be made of data availability and the associated costs of data collection to ensure that performance can be effectively monitored and evaluated.

- Performance of local water utilities against the established standards should undergo regular review by an independent party for transparency and accountability.
- The process of defining minimum service levels should involve collaboration with the NSW LWU sector and incorporate the voice of the customer. Engagement with consumer advocates, such as the Public Interest Advocacy Centre, would ensure that the standards reflect the needs and expectations of communities.
- It is essential to distinguish between minimum service levels and utility-specific performance standards. Standards outlined in operating licenses, such as those for water continuity, water pressure, and dry weather wastewater overflows, should not be combined with minimum service levels. Each utility may have unique standards tailored to meet the specific expectations of their customers.

The establishment of minimum service levels represents a significant step towards ensuring equitable access to essential water services across NSW. By adopting a transparent, inclusive, and accountable approach, we can enhance the resilience and sustainability of water utilities while safeguarding the interests of communities.

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?

There still exists a discrepancy in capacity, performance, consumer cost, and risk management between large and small councils. An unintended exacerbation of this issue has been the donation of expensive assets to smaller councils, which prove unsustainable for smaller utilities to manage long term. Although evidence is limited, in order to improve and increase equity of service levels, emphasising risk mitigation rather than large capital builds may contribute to achieving stronger long-term outcomes.

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

With the diverse nature of communities across regional NSW, it is important to tailor minimum service levels to the needs of each locality. A one-size-fits-all approach is not feasible, and flexibility in service provision is essential to ensure equitable access to safe and affordable water services.

For communities without access to reticulated water and sewerage services, basic service levels should be established, acknowledging inherent risks of service failure. Mitigation strategies, rather than costly infrastructure investments, should be prioritised to ensure safe and sustainable water supply and wastewater management.

Remote communities, often reliant on alternative water supply methods such as trucked water, face unique challenges during droughts. The associated costs of incident management,

including trucked water supply, must be factored into funding decisions to ensure adequate support for these communities.

The establishment of service standards should involve collaboration among multiple agencies and stakeholders. Access to specialist skills and technical support is crucial for regional water utilities to meet regulatory standards effectively, irrespective of the funding model or institutional structure.

Additionally, the lack of any certification process for water operators in NSW increases the risk that regulated service levels will not be met. Any new service level regulation should be in concert with training standard developments and commensurate remuneration increases for operators. This will go a long way towards increasing staff retention in areas where this is challenging.

11. What are challenges with monitoring and reporting against minimum service levels?
Small LWUs face significant challenges in monitoring and reporting performance to multiple regulators, compounded by difficulties in providing accurate and timely data. This lack of data, alongside contextual issues unique to each LWU, can obscure disparities in service levels and hinder strategic investments for long-term sustainability.

Challenges related to monitoring and reporting against minimum service levels should be addressed through streamlined regulatory approaches and improved data management systems. Real-world examples and context-specific data are essential for accurate impact assessment and effective decision making.

Prioritising evidence-based decision making, and a comprehensive State of the Assets report for LWUs to assess technical and financial capacity is recommended. Trade-offs between social, financial, and environmental requirements should be carefully evaluated, ensuring equitable access to water services while managing risks appropriately – the question of what safe service levels for water are, and how to ensure these levels in context where there is less water, is an important one, particularly when considering equity.

The implementation of minimum service levels requires a careful approach that considers the circumstances of each community, fosters collaboration among stakeholders, and prioritises data-driven decision making. By addressing these recommendations, we can ensure the provision of safe, reliable, and affordable water services to all communities across regional NSW.

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Alternative Funding Options: Outcomes, Infrastructure Loans, Investment, Climate Vulnerability, Models, and Engagement with Aboriginal Communities.

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

AWA supports WSAA's view that the NSW Productivity Commission should explore options for an independent governance model in collaboration with the sector and incorporate sector-input in its design. It is essential that any independent oversight for LWUs is proportionate to their capacity and resources, ensuring meaningful engagement while delivering a net benefit to customers and the people of NSW.

A shared vision and objectives of the NSW LWU sector, emphasising safe, secure, sustainable, and affordable water and sewerage services. Collaboration among various stakeholders is crucial to achieving these objectives, including LWUs, regulators, industry associations, and the private sector.

Regional water utilities can benefit from capacity development initiatives focusing on training, proactive risk management, and digital transformation. Aligning with international standards such as AS/NZS 55001 for asset management can further enhance operational efficiency and resilience.

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. Councils are often subjected to stricter borrowing rules than state owned entities and council debt is not guaranteed by the state.

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

Incorporating climate change considerations into investment planning is critical for the long-term sustainability of water utilities. High-level principles, including understanding climate risks, using appropriate scenarios, and ensuring adequate asset protection, should guide decision-making.

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

Addressing inequities in support for at-risk customers is paramount. AWA encourages the NSW Government to review existing concessions and rebates, particularly for pensioners, low-income households, and those experiencing financial vulnerability. Collaboration among

governments, water utilities, and stakeholders is essential to ensure fair and accessible support mechanisms.

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?

Leading examples of collaboration in NSW are the Orana Water Utilities Alliance and the Central NSW Joint Organisation Water Utilities Alliance. These voluntary networks have proven invaluable in improving capacity and response to challenges amongst their members.

In NSW, with the understandable concern around any legislated and non-collaboratively designed amalgamations or mergers, an approach that incentivises collaboration, on an opt-in basis, and makes clear the benefits of a networked approach is key.

Beyond these networked approaches, it is worth considering how utilities can build their capacity to leverage the private sector in areas where they face challenges such as staff shortages or a lack of skilled workers – supporting these institutions to retain ownership and control of their water resources, while leveraging the capacity of the private sector is worth trial and exploration.

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

Experience and information sharing by State-Owned Corporations (SOCs) is provided to LWU's. The quality and extent of expertise shared is often dependent on the good will and availability of the appropriate personnel from the SOC. Consultants working in the water sector provide another channel for leveraging the experiences of SOC's since they have often worked with both local water utilities and SOCs and are able to apply their learnings in each context however this transfer of knowledge is not formalised.

It is worth noting however that SOC's also have large challenges to deliver on their own strategies in the context of climate change and growing populations. A more sustainable model to enable LWU's to build capacity and capability that does to rely on SOCs is recommended.

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

AWA is currently exploring how our members can collaborate with regional and remote water sector and communities to improve their water and sewerage services. In this work, we imagine a strong and committed partnership between our members, and local, state, and national government. Better partnership requires better relationship, with shared goals, and meaningful opportunity to design programs and activities. This is a long-term proposition, and will take commitment from all, but with genuine openness to work together with Aboriginal communities to design solutions that will work for them, we believe that strong progress can be made.

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Key Recommendations

These recommendations highlight the importance of effective oversight, sector collaboration, and targeted support mechanisms to enhance the resilience, capacity, and sustainability of water utility services in NSW. AWA looks forward to working towards achieving safe, sustainable, and affordable water services for all NSW communities in partnership with our members and the NSW Government.

1. **Establish Independent Oversight for Utility Funding Models**: This oversight could be tailored to the capacities and resources of utilities, aiming to drive continuous improvement and ensure accountability. The NSW Productivity Commission could explore options for an independent governance model in collaboration with the sector, also incorporating the voice of the customer in its design.

2. **Align with Sector Vision and Objectives:** Endorse the shared vision and objectives of the NSW local water utility sector shared in the Regulatory and assurance framework for local water utilities (July 2022), focusing on providing safe, secure, sustainable, and affordable water and sewerage services for communities and the environment. This includes ensuring safe drinking water supply, effective sewerage services, meeting customer and community needs, and maintaining financially sustainable utilities with efficient and affordable pricing.

3. **Recognise Diverse Operating Environments:** Acknowledge the diverse operating environments of LWUs in regional NSW. Tailor funding models to address specific challenges faced by LWUs, such as climate impacts, fixed costs, and socio-economic factors. Implement a needs-based approach to funding allocation, ensuring equitable distribution across communities.

4. **Improve Performance Metrics and Funding Alignment:** Develop a suite of performance indicators that account for the complexity of LWUs operating environments. Link funding to ongoing performance improvements and value for money, incentivising continuous improvement while considering real-time data and preventative maintenance strategies. Ensure funding criteria align with LWUs' capacity to deliver operational and capital work, considering socio-economic status and risk of service level failure.

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5. **Enhance Support for Vulnerable Customers:** Address inequities in support for at-risk customers, such as pensioners, low-income households, and those experiencing financial vulnerability. Review existing concessions and rebates to ensure fair and accessible support mechanisms, considering options for government-funded concessions and rebates tailored to the specific needs of vulnerable customers.

6. **Incentivise Regional Collaboration:** Showcase models that are successful in NSW other justification and incentivise joint strategic plans and funding incentives that take a broader and more collaborative approach to establish mechanisms and new governance models that enable the long term sustainability of service levels.

7. **Address skills challenges:** Work towards improved training standards and mandates for certification of key roles such as operators. Regional training centres and review of remuneration will also improve the attraction, retention, and capability of staff in LWUs and improve service levels.

Thank you for the opportunity to contribute a submission to this review. To discuss further, please contact [redacted]

Best regards,

[redacted]

Corinne Cheeseman
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Australian Water Association

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