

8 April 2024

Mr Peter Achterstraat AM
NSW Productivity Commissioner
By email to: LWUReview@treasury.nsw.gov.au

Dear Mr Achterstraat AM,

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

Thank you for the opportunity for Central Tablelands Water (CTW) to provide a submission in response to the Issues Paper – Alternative funding models for local water utilities.

As background information, CTW is a County Council proclaimed in 1944 which currently provides quality drinking water to 15,000 consumers across 8,000km² in the local government areas of Blayney, Cabonne, Weddin, Cowra and Bland. An emergency bi-directional pipeline has also been commissioned linking CTW and Orange City Council water filtration plants to further assist in regional water security and resilience.

Challenges from current funding models

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

- *Climate impacts on water usage – both drought and extended wet weather has an impact on water consumption and therefore the ability to generate revenue.*
- *High fixed costs – depreciation, servicing borrowings. The replacement of ageing assets brings with it rising depreciation expenses over a long period of time. Assets are also fully revalued every 5 years and indexed annually adding to the asset value and increasing the depreciation expense.*
- *Recovery from bushfire and flooding – water and sewerage infrastructure damaged or destroyed by natural disasters are not eligible under Disaster Recovery Funding Arrangements (DRFA) as they derive an income through fees and charges. However, with the income volatility of local water utilities due to climate change impacts (i.e. droughts and floods), smaller local water utilities do not have the scale and capacity to absorb the repair and replacement costs of these affected assets.*

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?

- *Extensive distances between small populations impacts operational costs (i.e. travel time, plant, fuel, maintenance, etc).*
- *Diseconomies of scale for small local water utilities due to high water and sewerage assets per capita.*
- *Low socio-economic challenges (i.e. community's ability to pay for water and sewerage services).*
- *Water quality challenges in various parts of NSW (e.g. manganese, algal blooms, etc).*
- *Per capita cost comparisons are simply more volatile for small populations.*

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

- *Safe and Secure Water Program has not been able to keep up with the demand of local water utilities' ageing asset replacement programs across the state (i.e. insufficient program funding available).*
- *Significant overheads and business case costs to plan small regional projects.*
- *Significant delay in achieving regulatory approval for business case, planning and design stages of projects.*
- *Conflicting regulatory agency advice during planning assessment/approvals for projects.*

Funding model principles

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

- *Socio-economic status of customers and community (i.e. community's ability to pay for water and sewerage services).*
- *Risk of service level failure and assurance of continued compliance with the Australian Drinking Water Guidelines and NSW Health requirements.*

- *Remoteness of local water utilities and associated higher costs of operations and capital delivery in regional and rural NSW.*
- *Capacity of regional and rural local water utilities to deliver operational requirements and capital works.*

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

- *There is no typical cost to deliver water and sewerage services due to the many and varied operating environments that are beyond the control of the local water utility. This includes geographic distances between population centres served, climate, hydrology, management of shared water sources (e.g. bi-directional pipelines between neighbouring local water utilities), infrastructure required per capita, short term servicing needs such as tourism, construction (e.g. mining site establishment, renewable energy projects, transport - roads maintenance/renewal).*
- *Climate impacts have a significant influence on local water utilities' ability to operate, particularly during drought and wet years. Local water utilities are extremely susceptible to revenue volatility in a negative sense during these climatic periods.*

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

- *Incentivise continuous improvement, by striving to do better every day/month/year on a long term trend, whilst acknowledging that climate impacts significantly influence local water utilities ability to perform on a consistent basis.*

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?

- *No town within the area serviced by a local water utility should be treated differently with respect to minimum levels of service. However, it is to be noted that when there are different sources of water supply (i.e. surface and ground) utilised by the local water utility, water quality (e.g. taste, hardness, aesthetics, etc) universal levels of service may prove challenging.*

- *If performance data is aggregated at the utility level, then there is risk that service failures in smaller towns/schemes is masked by good performance data on the larger town. This would not be acceptable for the smaller community, however, there is no reason that costs should not be aggregated so that small towns pay a similar amount.*

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

- *Consistent metrics can be applied to measure minimum service levels whether it be a large or small local water utility (e.g. number of breaks per kilometre of main, response time between notification and resolution of issue, etc).*

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?

- *Not all evidence regarding current basic service levels, customers' needs for minimum service levels and willingness to pay in regional and remote communities is publicly available. Customer satisfaction surveys are conducted by local water utilities; however, the surveys are generally not uniform and therefore the results are not comparable or are unreliable.*

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

- *Not one size fits all, that is, most local water utilities are different in respect to their operating environment (e.g. water quality, distance between connections and towns, remoteness, water sources, capability, capacity, climatic impacts, etc)*

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

- *Cost and capacity to measure and report; quality and accuracy of data provided; capture of relevant data and comparability of local water utilities.*

Alternative funding options

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

- *That all local water utilities are supported financially to ensure they can continue to deliver a safe and reliable drinking water supply to their consumers at an affordable price.*
- *That all local water utilities are supported by the relevant regulators to ensure they can continue to meet the Australian Drinking Water Guidelines and NSW Health requirements under the Public Health Act 2010.*

- *Recognition that one size does not fit all in regulating local water utility performance.*

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

- *Ability of local water utility to service loans, especially during climatic impacts (i.e. drought, wet years, revenue volatility).*
- *Size of local water utility relative to size of debt being taken on for a major project, most commonly to match the funding eligibility required by the Safe and Secure Water Program.*

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.*

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

- *Consumers on fixed or low incomes (e.g. pensioners)*

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?

- *County Councils, Central NSW Joint Organisation Water Utilities Alliance, and Orana Water Utilities Alliance are all examples of regional collaboration for local water utilities. Such as for the planning and delivery of major water infrastructure projects, joint procurement of services and materials (e.g. water loss management, drinking water guideline auditing, procurement of water meters, pipes, etc).*
- *Challenges are insufficient resources, time and funding to promote regional collaboration on a consistent basis.*

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

- *There are no clear guidelines or procedures for local water utilities to access or leverage the scale and expertise of State Owned Corporations. However, CTW has developed a strong and professional working relationship with WaterNSW over the years through the Belubula Water Security Project and potential pipeline linkage with*

Lake Rowlands and Carcoar Dam. This collaborative relationship has led to the future development of a Lake Rowlands Catchment Management Plan utilising expertise from WaterNSW.

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

- *Continued development of Reconciliation Action Plans across all local water utilities in collaboration with local Aboriginal communities.*

Conclusion

Everybody in NSW deserves safe, reliable and affordable water and sewerage services. Small communities deserve equitable access to these critical and essential services. Local government is best positioned to deliver these services in regional NSW.

Local communities have large equity in the assets of local water utilities. These communities expect their investment to be preserved, maintained and protected.

CTW is a member of the NSW Water Directorate and holds associate membership with the Central NSW Joint Organisation and Local Government NSW. As a result of these memberships, CTW supports the submissions provided by these organisations for this issues paper.

On behalf of CTW, I would like to thank the NSW Productivity Commission once again for inviting CTW to provide a response to the alternative funding models for local water utilities issues paper.

Yours faithfully,



Gavin Rhodes
General Manager