NSW Productivity Commission – Review of Funding Models For Local Water Utilities

Shoalhaven Water Submission

Introduction

Thank you to the NSW Productivity Commission for the opportunity to provide a submission to the Review of Funding Models for Local Water Utilities.

Shoalhaven Water is one of 89 local government owned water utilities (LWU's) in regional NSW. Further information about us can be found at: www.shoalwater.nsw.gov.au

Shoalhaven Water Key Information

Table 1 - Features of Shoalhaven Water

• 54,000 connections	• 180,000 permanent population served Up to 600,000 peak population served
• Customers span 4,567 square kilometres	• 2.7 million visitors each year
• 4 water treatment plants	• 13 sewerage schemes
• 16.5 GL per annum of water supplied	• 7.5 GL of sewage treated annually
• Beneficially reuse approx. 900 ML reclaimed water each year	• Reuse 100% biosolids each year
• $2 Billion total replacement cost of assets	• $100 million in annual revenue
• 2,900km water/sewer mains	• 1,500 pressure sewer systems
• 180 water/sewer operators	• 80 managers, engineers, technicians and business administration staff

Shoalhaven Water is a semi-autonomous business unit that manages extensive critical water and sewerage infrastructure on behalf of Shoalhaven City Council and its community (approximately 45 towns and villages). The very nature of the water industry requires an enormous diversity of human skillsets, that cannot be realistically filled by permanent in-house staff, thus requiring outsourcing to the private sector. Rising costs associated with consulting, contracting, electricity, essential chemicals along with cost-of-living pressures within (particularly) lower socioeconomic sectors of the Shoalhaven community make it difficult to set acceptable pricing to achieve operational surplus and undertake appropriate capital works.

In the last few years, Shoalhaven has experienced unprecedented impacts on water supply and sewerage systems arising from drought, severe bushfires, floods and the COVID-19 pandemic. By the end of 2019, the worst drought in 130 years of records was immediately followed by severe floods and the pandemic, placing extreme stress on the utility finances, its staff and the local community. Government funding to recover from these events is generally not made to LWU's.

Shoalhaven Water has been exploring opportunities outside it's business-as-usual. It should be noted that Shoalhaven Water manages water and sewerage infrastructure within Jervis

Bay Territory (JBT) under contract with the Federal Government Department of Infrastructure, Transport, Regional Development and Communications (DITRDC). Federal Government funding has been granted to DITRDC for connection of Jervis Bay Territory to the Shoalhaven water supply network, so will effectively become a customer of Shoalhaven Water. Discussions have also commenced regarding a sewer connection from JBT to Council's system.

Shoalhaven's water and sewerage services are provided to a number of local indigenous communities as well as approximately 1 million tourists to the area each year.

This response provides a local perspective on each of the questions posed in the Issues Paper.

Challenges from current funding models

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

   Water utility costs are not adequately recouped from financial impacts of natural disasters – both drought and extended wet weather have significant impacts on costs and/or revenue. During 2019/20 the drought coupled with bushfires saw enormous stress placed on Shoalhaven's water supply. Potable water usage increased significantly during the bushfires due primarily to usage by RFS to fight fires. There is no mechanism to recover costs through DRFA of unmetered water used to fight the fires.

   2020/22 saw the highest rainfall recorded in Shoalhaven on record. Water usage in Shoalhaven dropped by approximately 25% during this period, severely impacting on revenue.

   The impacts of the COVID pandemic on inflation has impacted on water utility costs (particularly electricity, chemicals and contracting). It then follows that difficulties are encountered for residents and businesses to accept rises in water and sewerage fees and charges.

   The compounding effects of the above have meant that considerable strain has been placed on the water and sewer funds.

   There has been little or no opportunity for State Government Funding for Shoalhaven Water projects since the last project funded under the Country Towns Water Supply and Sewerage Program (Kangaroo Valley Sewerage Scheme).

   Shoalhaven Water has identified many opportunities for improved performance, operational savings, and projects that provide benefits to regional economy and emergency management. These cannot be implemented due to significant upfront costs required, so those longer term benefits cannot be realised.

   Changing legislation without adequate consideration to an LWU's ability to pay. Examples are Reclaimed Water re-use guidelines and potential changes to biosolids reuse guidelines.

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?**

   Economies of scale – Shoalhaven manages 13 sewerage schemes servicing approximately 40 towns and villages spread from Berry and Kangaroo Valley in the north to Ulladulla in the south. We are investigating opportunities to consolidate 4 sewerage schemes into one, thus creating longer term operational savings and vastly improved environmental outcomes, but this requires a significant upfront capital outlay, which is simply not affordable to the utility on its own.

Long distances between small populations impacts travel time and operational costs. These could all be improved with the consolidation of treatment systems.

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

Shoalhaven was fortunate to have received funding for a number of "backlog" sewerage schemes in the 1990's and early 2000's through the Country Towns Water Supply and Sewerage Program (CTWSSP). Those schemes were designed for an approximate life of 30 – 40 years, which means they are now up for review. Shoalhaven Water has commenced, as part of its strategic planning, a review of these schemes. In order to comply with current regulatory requirements and build in expectations with respect to circular economy/emissions reductions etc, it has been revealed that the augmentations of these schemes will require capital investment of approximately $20million per scheme. Simply unaffordable without a funding source similar to the CTWSSP.

The current Safe and Secure program does not appear to support LWU's that are performing well yet have a desire to perform more efficiently. Refer to question 2 above – if capital funding became available to consolidate 4 sewage treatment plants into one, it would go a long way to making Shoalhaven more self-sufficient by reducing operational costs and increase ability to self-fund future capex across less treatment plants. These efficiency gains could be achieved at a similar cost to upgrading each of the four treatment plants mentioned.

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, ie the ability of customers to pay.

DCCEEW have now implemented the Regulatory and Assurance Framework and the annual check-in process, so they have "vision" as to the maturity of Asset Management Planning and Strategic/Financial Planning for all LWU's that participate in the process. Just because an LWU has mature planning does not necessarily mean that it can deliver on what has been identified in those plans (due to inadequate funds).

Shoalhaven Water participates in the annual check-in process and indeed was the recipient of the 2023 prestigious "Sam Samra" Award for its pro-active approach to the new Regulatory and Assurance Framework, particularly in the strategic planning space.

Having mature planning in place should give the government greater comfort that it is getting value for money when investing in infrastructure for that LWU. It is felt that LWU's like Shoalhaven Water are disadvantaged when it comes to government funding under the Safe and Secure Program.

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

In order to become completely self-sufficient, ie achieve operational surplus, deliver on projects identified in Asset Management Plans (renewals and new projects), deliver dividends to Shoalhaven City Council, and maintain Reserve funds for unexpected events and impacts of climate change, it is estimated that Shoalhaven's prices for water and sewerage usage/availability would

need to treble. Shoalhaven Water's pricing for residential customers in 2023/24 are as follows:
Water availability - $88 per year
Water Usage - $2.00 per kL
Sewer availability - $956 per year

The typical residential bill for water and sewerage (based on 155kL water usage per year) in 2023/24 is $1,354.

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

Please refer to response to question 4.

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?

All Shoalhaven Water residential customers pay the same for their water (availability and usage) and sewerage (availability) services.
Shoalhaven Water does apply consistent minimum levels of service across all 13 sewerage schemes and 4 water schemes. From the local perspective we have no great concern with maintaining consistency as demonstrated in the annual National Performance Reporting through the Bureau of Meteorology.
I do understand however that other LWU's may not be able to achieve consistent levels of service throughout their service areas due to their own specific circumstances.

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

No further comment.

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?

Shoalhaven Water maintains a Customer Service Plan that is publicly available on our website. The document outlines our levels of service provisions along with response times.
Customer satisfaction is measured through Council's Customer Experience team, who invite all customers who call regarding a water or sewer matter to complete a short survey at the completion of that service. Results of the surveys are reported to Shoalhaven Water management on a monthly basis. Shoalhaven Water consistently record 95% customer satisfaction.
Our response times are reported through Council's CRM.

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

No further comment in regard to Shoalhaven.

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

No further comment in regard to Shoalhaven.

Alternative funding options

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

The ultimate goal would be for our communities to have safe water supply and sewerage services that are provided to agreed levels of service. The services should be affordable while the LWU's remain financially self-sustaining. It is recognised that this will take time and will require upfront financial support from governments to achieve this.

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

- 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.
- 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
- Debt is often underutilised by LWU's due to the perceived long term financial and political risks to a small LWU.

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

Shoalhaven has already been severely affected by climate events, particularly in the past 5 years. The future sees additional risks associated with repeats of the extreme events already encountered, along with inundation of assets through sea level rises. Council is developing a Coastal Management Plan that identifies (among other things) water and sewerage assets at greatest risk.

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 Sydney Water/Hunter Water and regional LWUs. Sydney Water and Hunter Water have $650 and $380 rebates respectively which are fully covered by state government through a CSO payment. Regional LWU's have a capped rebate of $175 per customer ($87.50 each for water and sewer) with state government only covering 55% of this. There has been no increase in this rebate since 1993. The NSW Government should fully fund the pensioner rebates for all LWU's across NSW consistent with the assistance provided to the State-Owned Corporations and their customers.

As discussed earlier in this submission Shoalhaven Water has responsibility for a large number of schemes (13 x sewerage and 4 x water). The majority were built or augmented with financial assistance through the Country Towns Water Supply and Sewerage Program (sometimes > 50% subsidy). These large additional assets result in increased costs of operation and depreciation (renewals). Many of these assets are reaching end of design life at a similar time, and with increased regulatory expectations and rise in contracting costs

it is near impossible to achieve augmentation of these assets in a timely manner, thus increasing the risk of asset failure.
The community is at risk of greater price hikes due to the lack of state government support for disaster recovery.

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?

No comment.

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

No comment.

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

Shoalhaven Water participates in the worthwhile Aboriginal Communities Water and Sewerage Program. It is strongly recommended that this program continue to ensure the health and wellbeing of Aboriginal communities.

Shoalhaven Water thanks the Productivity Commission for the opportunity to submit this response to Review of Funding Models for Local Water Utilities. We apologise for the tardiness of the response, primarily due to the wet weather emergency event recently experienced along the east coast of NSW.

It should be noted that, due to time constraints, this submission has not been endorsed by Shoalhaven City Council. Endorsement can be sought should the Productivity Commission see fit. The undersigned would be happy to clarify/elaborate on any points raised in the submission.

Yours Faithfully,

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