

NSW Productivity Commission
LWUReview@treasury.nsw.gov.au

Dear Sir/Madam

ALTERNATIVE FUNDING MODELS FOR LOCAL WATER UTILITIES – ISSUES PAPER (FEB 2024)

On behalf of Tamworth Regional Council thank you for the opportunity to provide comments on the NSW Productivity Commission's Alternative Funding Models for Local Water Utilities – Issues Paper.

Council's submission follows.

Please contact the undersigned should you wish to discuss this matter further.

Yours faithfully,

[Redacted Signature]

Bruce Logan
Director Water and Waste

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27 March 2024

Tamworth Regional Council

Response to the NSW Productivity Commission

Alternative Funding Models for Local Water Utilities – Issues Paper (Feb 2024)

Table of Contents

1	Council Background.....	3
2	General Comments on the Issues Paper	4
3	Comments on Current Funding Models.....	4
4	Comments on Funding Models Principles	5
5	Comments on Minimum Service Levels	6
6	Comments on Alternative Funding Options.....	7

1 Council Background

Tamworth Regional Council (Council) is located in the New England Region of New South Wales. The local government area (LGA) is bounded by Gwydir Shire in the north, Uralla Shire and the Walcha Council areas in the east, Upper Hunter Shire in the south, and Liverpool Plains, Gunnedah and Narrabri Shires in the west.

The Council LGA incorporates an area of 9,893 km², including the surrounding towns and villages of Nundle, Manilla, Barraba, Bendemeer and Kootingal. The current population of the LGA is approximately 65,000 and projected population growth is around 1.2% pa.

The Tamworth region Gross Regional Product is estimated at more than \$3.7 billion, which represents approximately 0.55% of the state's Gross State Product.

A summary of the urban centres in Tamworth LGA and details of the water and sewerage services are included in Table 1.

Table 1 Existing Reticulated Water and Sewerage Services by Urban Centre

Urban Area	Approx. Population Served	Water Supply Connections	Sewerage Connections
Tamworth (incl. Moonbi / Kootingal)	50,000	19,500	19,022
Manilla	2,100	1,200	1,078
Barraba	1,125	780	703
Attunga	330	150	<i>On-site sewage management systems</i>
Nundle	310	230	<i>On-site sewage management systems</i>
Bendemeer	210	145	<i>On-site sewage management systems</i>
Council LGA	54,075	22,005	20,803

Council's projected revenue for 2024/25 is \$24M for water services and \$29M for sewerage services. Based on a combined revenue of greater than \$20M, Council's Safe and Secure Water Program current funding band is (up to) 25%, the lowest level of funding support.

Council received grant funding of \$3.8M from the Safe and Secure Water Program to support the \$19M upgrade of Manilla Water Treatment Plant in 2021. This contribution from the NSW Government represented 20% of the estimated capital cost.

2 General Comments on the Issues Paper

Council would like to make the following general comments in relation to the Issues Paper:

- Council welcomes the opportunity to provide this submission and is supportive of the need for a more sustainable funding model that strengthens local water utilities (LWUs). Council is a large regional LWU and does, to some degree, benefit from the economies of scale that come with this. However, funding major capital works is still very difficult without government support, and funding the full spectrum of technical resources that are required to operate a large LWU is also very challenging.
- Given the financial strain already experienced by most LWUs, there is a need for a robust assessment of both the benefits and costs associated with the alternative funding proposals outlined by the Productivity Commission. If the benefits associated with the proposed changes do not outweigh the costs associated with implementing and regulating them, the economic viability of LWUs will reduce further.
- There is a need for better recognition of the state government's responsibility in managing shared water resources across regional NSW, particularly town water sources that are associated with regulated surface water systems and regional groundwater systems. There also needs to be a better understanding of how these shared water resources impact town water security. While LWUs are responsible for paying bulk water charges, maintaining bulk water assets (mainly extraction related), and ensuring that water is used efficiently, it is the state government that is primarily responsible for managing these shared water sources and ensuring appropriate levels of water security are provided to towns dependent on them. This includes ensuring town water entitlements are prioritised and where needed, funding major capital works and other management solutions to ensure ongoing water security.

3 Comments on Current Funding Models

Council would like to make the following comments in relation to the Current Funding Models:

- There are significant challenges associated with setting regional water and sewerage charges, with full cost recovery not the only driver. There is a competitive need to attract and maintain large businesses and industries that support regional employment opportunities and help to ensure a robust regional economy and population base. This often leads to the subsidising of water and sewerage charges for some customer types. A similar principle applies to the setting of water and sewerage developer charges.
- The current risk-based approach to grant funding (Safe and Secure Water Program) is generally supported. However, there is still room for improvement, for example:
 - More consultation with LWUs should be undertaken before determining risk scores.
 - The grants provided to large LWUs (generally up to 25% of the project cost) don't take into consideration the economies of scale challenges associated with funding major infrastructure (generally treatment plants) in smaller towns within the LGA.

- LWUs should be incentivised to set appropriate water and sewerage charges (taking into consideration the local socio-economic conditions) that, where possible, support the building of LWU cash reserves that can be used to fund or partly fund future capital investments.
- Depending on the size of the capital works project, the LWU costs associated with applying for and managing grant funding is not always cost efficient (particularly for large LWUs which only receive 25% of the total cost of a project).
- The allocation of funding based on income levels as per the present arrangement needs to be revised. Under the present arrangement Council are seeing;
 - One Council receives substantially more funding than another Council because 1 Council falls just under the arbitrary cut off for income and the other falls just above.
 - How were the present cut off levels arrived at?
 - There are other considerations impacting on the levels of subsidy that should be received rather than just the level of income.
 - Under NSW Government legislation income generated through the provision of wastewater services can only be expended in the wastewater area and similarly income generated in water area can only be expended in the water area. However, under the present safe and secure funding arrangements the income generated by a particular Council is assessed by added income from both water and the wastewater area. As a result if a Council is considering the construction of a new Water Treatment Plant it can only fund its share of the construction cost from the water reserve, but for the purposes of subsidy the Government looks at income from both the Wastewater and Water reserve even though wastewater funds cannot be used for this purpose.
- The NSW Government introduced pensioner rebates and initially paid the full cost of the rebates. Whilst the NSW Government still requires LWU's to pay pensioner rebates, the level of subsidy provided by the government has fallen significantly. In fact, the NSW Government still pays significantly more of the pensioner rebates provided by State Owned Corporation (SOCs) like Sydney and Hunter Water. This needs to be taken into consideration by LWUs when setting appropriate and affordable water and sewerage charges.

4 Comments on Funding Models Principles

Council would like to make the following general comments in relation to the Funding Model Principles:

- In recent years, Joint Organisations (JOs) have been established to encourage and support more collaboration between local councils and LWUs. Initial funding was provided by the NSW Government to assist JOs and the expectation was this funding would continue until

JOs could demonstrate financial sustainability. However, this has not been the case. The Namoi JO (known as Namoi Unlimited and originally formed in 2015), whose membership included Council, Gunnedah Shire Council, Gwydir Shire Council, Liverpool Plains Shire Council and Walcha Council, has just recently been dissolved due to ongoing funding and resourcing challenges. In order for a JO to be sustainable, the benefits provided by the JO need to outweigh the costs. It is Council's view the only way JO's or similar vehicles will be successful is with significant funding from the NSW Government to provide the necessary resources to administer the work undertaken by the JO's. Ensuring technical staff have sufficient availability to contribute to the JO and/or recruiting additional staff directly under the JO, in regional areas, are also major challenges.

- The use of community service obligations (CSOs) where cost recovery is not economically viable is supported. To ensure rigor, a component of the funding should be linked to the achievement of specific indicators. Independent oversight of CSOs is also considered important and would need to be funded by the state government, along with the program in general.

5 Comments on Minimum Service Levels

Council would like to make the following general comments in relation to the Minimum Service Levels:

- Council supports a risk-based approach to the two fundamental minimum service levels associated with town water supply: drinking water quality and town water security. While a risk-based approach to drinking water quality has already been implemented across NSW, a risk-based approach to town water security is still to be developed and implemented.
 - The development and implementation of Drinking Water Management Systems (DWMS), in accordance with the Australian Drinking Water Guidelines (ADWG), provides a robust framework for the consistent management of drinking water quality across NSW. Recent amendments to these guidelines incorporating the inclusion of Health Based Targets (HBTs), will have significant budget implications for Council and other LWU's both in terms of initial capital expenditure for water treatment improvements and ongoing operational costs.

Council understands NSW Health and DCCEW positions in addressing HBT's as follows;

- *Local water utilities should develop a plan in their drinking water management system Improvement Plan and other relevant strategic planning documents to address HBT shortfalls in all existing water supplies. Utilities should review NSW Health Cryptosporidium risk ratings and the Guidelines catchment categorisation, and identify any HBT shortfalls for pathogens. Utilities should engage with NSW Health and DPE Water to determine the priority for managing the LRV deficits in their supplies.*
- *New water treatment plants should be designed to meet HBTs.*
- *Existing water treatment plants should be upgraded to meet the microbial HBTs when a new source is introduced that has a higher catchment risk than the original source.*

- *Existing water treatment plants may be incrementally upgraded to address a HBT deficit in an existing source, such as where there are not sufficient funds to meet the HBT.*
 - Council predominately sources raw water from surface water supplies and the majority of its water treatment facilities will require upgrades to address HBT deficiencies. Council would support the NSW Government reviewing funding opportunities to assist LWU's address HBT deficiencies.
- A risk-based approach to town water security across regional NSW is urgently needed and the concept of an enduring supply (irrespective of drought severity) needs to be considered at both a government and a community level. While no town in NSW should be allowed to run out of water, the acceptable risk of failure of primary / backup town water supplies is likely to differ across regional NSW, depending on the availability of emergency (or enduring) supply options. While small towns can rely on water carting in an emergency, and larger coastal towns can include temporary desalination in their drought contingency plans, larger inland towns face major challenges when it comes to enduring supply.
- Council also supports compliance with environmental regulations as a minimum service level, particularly in relation to sewage treatment plants and sewerage networks. Ongoing monitoring and reporting requirements provide a level of assurance to communities that LWUs are protecting both the environment and the community.
- Consideration of other minimum service levels, particularly those related to service reliability, need to take into consideration economies of scale issues associated with operating smaller and remote town water systems. For example, response times to small town water systems are often longer due to the location of key personnel and equipment, which are often shared across multiple towns / systems.

6 Comments on Alternative Funding Options

Council would like to make the following general comments in relation to the Alternative Funding Options:

More targeted government grants and subsidies

- Government grants are an important funding source for LWUs and they are likely to remain an important source of funding in the future. While LWUs may be responsible for the day-to-day provision of water and sewerage services to local communities, all levels of government need to continue working together to protect the ongoing provision of essential services to our communities. This includes ongoing capital grants from both the state and federal governments, and the full implementation of a CSO framework for LWUs.

Expanding rebates schemes

- The expansion of pensioner style rebates to other groups with limited incomes needs to be considered. Similar to Sydney Water and Hunter Water, the full cost of rebates should be funded by the state government, through CSO payments. In addition, mechanisms to ensure the ongoing (long-term) funding of these rebates need to be established from the

outset, to ensure the real value of the rebates offered and the level of state government funding does not deteriorate over time.

Utilising developer charges

- Developer charges are an important source of funding for LWUs with towns that are experiencing significant growth (including Tamworth). However, the cost of calculating developer charges for towns that are experiencing only limited development can be prohibitive. The adoption of a universal or base developer charge for towns experiencing only limited development may be worth considering.

Greater use of regional collaboration

- Council is generally supportive of the concept of using regional collaboration to help address the lack of economies of scale. Council remains a member of the Namoi Water Alliance, which involves 5 Councils – Tamworth Regional, Gunnedah, Liverpool Plains, Gwydir and Walcha collaborating on water and wastewater issues. However, as a larger LWU, the benefits associated with regional collaboration can be substantially less than the benefits provided to smaller LWUs. In the case of JOs, if external funding is not available and internal funding is based on LWU size and/or capacity to pay, then larger LWUs will generally end up subsidising smaller LWUs. Consequently, a sustainable funding mechanism for regional collaboration (particularly JOs) is needed. This could include the state government providing ongoing funding to all JOs to ensure they remain viable and to remove the disincentives associated with cross subsidisation. JOs also need to be large enough to have their own resources and not just be reliant on the limited availability of existing LWU staff.

Broadening the role of SOCs

- In the past, Council has benefitted from an indirect relationship with an SOC (Hunter Water). Prior to 2015, Council had a consulting agreement with Hunter Water Australia, a subsidiary of Hunter Water at the time. This provided Council with access to not only consulting engineering capabilities, but also operational expertise. Following the sale of Hunter Water Australia, Council has continued to work with Beca Hunter H2O (which evolved from the former Hunter Water Australia) and Council continues to receive support from technical staff with previous operational experience. However, Council no longer benefits from an indirect relationship with Hunter Water.
- The concept of leveraging the capabilities of the SOCs to 'reduce the risks for LWUs' is worth further consideration. This could potentially include service level agreements and/or partnership agreements to support the operation of high-risk assets, such as dams. Council currently owns and operates Dungowan Dam, while also utilising water entitlements from a nearby state dam (Chaffey Dam), which is operated by WaterNSW. While a technical support and/or operating agreement with WaterNSW could be worth exploring, Council is concerned that the already high costs associated with owning and operating a dam would effectively increase under such an arrangement.

Moving to regionally based usage and service charges

- Regional (or LGA) based usage and service charges already applies to towns across the Council LGA. This approach simplifies the administration of water and sewerage charges and ensures that charges are affordable across all water and sewerage systems. Broadening this approach to cover multiple LWUs is more problematic. Firstly, water and sewer charges vary considerably between LWUs, particularly the tariff structure – including the ratio of fixed charges to variable charges and the way usage charges step up with increasing usage. Secondly, moving to regional based pricing would inevitably lead to some LWUs being over-funded and others being under-funded.

Addressing water safety, security and sustainability through a more targeted, whole of investment life cycle funding model

- Council is supportive of the concept of a whole of investment life cycle funding model. Traditional grant funding has focused primarily on capital costs and pre-construction costs, with little consideration given to ongoing operating costs. As a starting point, CSOs could be used to support LWU operating costs where cost recovery is not economically viable (with a component of the funding linked to the achievement of specific indicators).

Introducing independent oversight to drive continuous improvement and accountability

- The net benefit of introducing independent oversight is not clear. Further information is needed, including:
 - How would independent oversight differ from current governance arrangements?
 - Council is already highly regulated – is further independent oversight necessary or can it be absorbed within existing governance arrangements?
 - Who would pay. Considering the Dams Safety NSW experience where the NSW Government has set up a new regulation structure and initially fully funded the new body, already Councils are seeing moves towards imposing charges on the owners of certain dams to help fund the new regulator.
 - What are the costs (direct and indirect) associated with independent oversight and who would ultimately pay for this? A stronger focus on continuous improvement and accountability would likely drive-up water and sewerage charges (in order to deliver improved outcomes to customers), but is this affordable?
 - How would independent oversight take into consideration the various local and regional challenges faced by LWUs?