

27 March 2024

NSW Productivity Commission  
Via email: [LWUReview@treasury.nsw.gov.au](mailto:LWUReview@treasury.nsw.gov.au)

Dear Sir/Madam

***Review of funding models for local water utilities***

**Challenges from current funding models**

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

The cost of providing water and sewerage services to rural and regional communities is relatively high for several reasons which will be further discussed below. The reality is that distribution of costs across customers to truly reflect all costs would mean an unrealistic cost per consumer of what is an essential service.

In areas like the Bega Valley with high tourist numbers over peak periods over summer it is very difficult to adequately cover costs through user charges due to high fluctuation in usage. A model which moves more towards access charges would be considered more beneficial. In places like Bega Valley we are also required to have headworks infrastructure to cater for peak demand which occurs for a very short window of time over summer.

Seasonal fluctuations also significantly impact ability to accurately model what user charge per kL rates should be. For example, in a very dry year demand, hence sales may be high but in a wet year demand and hence sales and revenue will be significantly down, however costs are not directly linked to demand (or volume of water supplied). For example, high fixed costs such as depreciation of essential capital assets do not change based on water supplied. Seasonal fluctuations are becoming more extreme and unpredictable due to the impacts of climate change.

An issue that much of NSW including Bega Valley in particular have been significantly impacted by for an extended period is natural disasters both in terms of recovery as well as the need for additional capital investment. Additional capital investment referred to is linked to identified catchment and infrastructure risk in high natural disaster hazard areas such as the Bega Valley.

**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?**

It is important to recognise that two local water utilities of similar size and remoteness do not necessarily have the same cost inputs. For example, Bega Valley has approximately 15,000 connected customers to our overall water network. Our customers are spread across a number of interconnected as well as isolated networks, some with shared source water, some with shared treatment and some completely independent of others. In the Bega Valley the costs of the discreet as well as interconnected networks is socialised across all customers. This means some of our smaller more isolated serviced communities receive services at a lower cost than they should theoretically be and some of our more densely urbanised areas are receiving

services at a higher cost than they should theoretically be. More detail on the type of infrastructure required could be provided if requested (eg numbers and size of pump stations, reservoirs etc).

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

The scale of cost for capital renewals and upgrades in regional areas relative to the customer base utilising the infrastructure means many of the projects simply aren't feasible without some level of external financial support. Even when taking out significant loans to counter intergenerational equality in funding, many of these projects simply aren't feasible even across two generations. These projects are critical to water supply risk reduction, water security and public and environmental health so MUST be funded somehow.

In recent years changing legislative requirements, particularly environmental legislation, have significantly increased the cost of delivering water and sewer capital projects. For example, the Eurobodalla southern water storage project which is currently underway, has a capital cost of approximately \$140m with this figure including \$30m towards biodiversity offset credits.

A further challenge is the high level of investment required during the planning phase which may take several years to complete prior to being ready for capital delivery. Often cost escalations during the planning phase significantly change the achievable deliverables within previously approved grants. The planning phase can be significantly drawn out due to regulatory approvals and the level of detail required in business cases to secure external funding support. Furthermore, LWU's often receive conflicting advice from different agencies which effect what is actually delivered in the end and the cost. An example of this is the construction of the Bega Water Treatment Plant which received significant state funding. After award of a tender, NSW Health decided the design of the plant needed to change to meet their requirements which led to an additional \$600k cost and only by luck could be factored into the construction footprint.

#### **Funding model principles**

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

One factor to consider could be existing level of typical residential bill. For communities that are already paying a lot for their services there could be a better argument towards statewide socialisation of costs of these essential services. In many rural and regional areas there is a low socio-economic demographic which impacts capacity to pay. Capacity to deliver should also be a factor in determining the amount of financial support provided to support a LWU.

LWU size (i.e. customer base) as well as remoteness are certainly factors for consideration as should be customer base being served by the infrastructure or catchment.

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

This is a question that is difficult to answer given there is no 'typical' water utility. The customer bases are all different, the water sources are all different, access to labour markets are all different, access to materials are different, geography/topography/environment are all different. Additionally, climate impacts, water management/licensing arrangements, distance to catchments and short-term peak demand variations are all critical variable factors that support the argument there is no 'typical' water utility.

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

Incentivise continuous improvement, doing better every day/month/year on a long-term trend, whilst acknowledging that wet/dry/stormy climate plays a huge part in year-to-year performance.

#### **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?**

Minimum service levels yes, however perhaps there are some peripheral impacting legislative requirements that could be applied differently in different places.

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 main large town. This wouldn't be acceptable for the smaller community. However, there is no reason that costs shouldn't be aggregated so that small towns pay a similar amount which is the case in the Bega Valley.

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

Measurements relating to achievement of health parameters should remain critical as well as environmental health measures for sewerage outputs.

It is imperative that any metrics need to account for matters beyond an LWU's control. For example, upstream catchment water quality needs a whole-of-catchment, multi-agency and community-oriented approach.

#### **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?**

It is important to recognise that there is a difference between willingness to pay and capacity to pay. There is certainly a willingness to pay a reasonable amount in line with what others pay for access to critical water and sewer services, however there is an upper limit to what people are able to pay.

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

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

In NSW there are already extensive reporting requirements on LWU's on service levels through best practice compliance reporting as well as NSW Health, NSW EPA and additional DPIE Water reporting requirements. Additionally, LWU have dam safety monitoring and reporting requirements.

Existing reporting requirements are already very heavily resource and time intense, often LWU's will have to make decisions on where to prioritise their resources between reporting and actually delivering services to their customers. Quality of data provided to try and make comparisons with can also be susceptible to source data quality issues.

#### **Alternative funding options**

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

A shift in capping of contributions under grant programs that will be provided from the State, eg a 25% contribution. There should be more consideration of merit based needs for support. In the case of Bega Valley, the Yellow Pinch Water Treatment Plant and the Merimbula Ocean Outfall are two examples of significant large projects likely to cost over \$30m in each (one in water fund, one in sewer). A limit of 25% state contribution to this makes them unviable for the local community to be able to pay. A 50-75% contribution would render them more viable. Both projects are being driven by changes in NSW Government requirements relating to Health and Environment.

Recognition that context is the key, and one size does not fit all in regulating LWU performance. There is significant diversity in operating environment for LWU's in regional NSW.

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

Loans still effect the typical residential bills of customers; Bega Valley extensively uses loans for contributing towards capital works that are going to serve multiple generations. There may be impacts on some LWU when financial institutions assess their consolidated financial position to measure borrowing capacity rather than fund by fund (i.e. separate water fund, sewer fund, general fund).

Similarly, Council based LWU's get their overall financial performance measured inclusive of water and sewer, so their financial performance ratios can be negatively impacted by higher levels of debt in water and sewer funds.

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

Additional funding programs to support this would incentive greater focus and effort on this.

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

Remote and regional are at greatest risk due to capacity to pay compared to metropolitan counterparts. Comparison of household incomes relative to cost of services would be a measure to reinforce this. Furthermore, pensioners are an at greater risk group, particularly in regional areas. Rural and regional areas are typically at higher risk from the impacts of natural disasters.

In some cases, rural and regional areas have been historically 'gifted' assets with inadequate ongoing supporting funding.

**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?**

Central NSW Joint Organisation water utilities alliance, Orana Water Utilities Alliance are examples in rural NSW of good collaborative models.

County Councils are a potential facilitator for collaboration. Challenges are insufficient resources and funding to promote regional collaboration as well as lack of alignment across catchments within regions.

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

An example in Bega Valley of challenges has been management of water releases from state managed dams where there has been irrigation (or electricity generations releases) that have resulted in residual urban storage being below required thresholds leading to unnecessary urban restrictions for the LWU to manage around. NSW Public Works are an example of a state-owned entity that Bega Council has utilised for technical support (albeit at a very high cost).

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

Bega Valley has an arrangement in place supported by NSW Government to provide water services to the Wallaga Lake Aboriginal community which is outside the Bega Valley. This is an example of a service that supports the Aboriginal community that works because of collaborative partnerships. Bega Valley has also recently resolved to provide headworks waivers on a number of Local Aboriginal Land Council housing developments which is a way of socialising costs across all customers and development to support Aboriginal outcomes and reduce the cost of their housing.

Yours sincerely



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