

NSW Productivity Commission Review of funding models for local water utilities

Terms of Reference

The NSW Productivity Commission should investigate the range of alternative funding arrangements that would help reduce service risks for local water utilities and provide advice to the NSW Government on next steps for a future direction.

The investigation should consider:

- The current funding arrangements for the 89 council-owned local water utilities in NSW and strategies that could better optimise the current funding approaches, including:
 - NSW Government funding programs
 - Existing requirements for user charges and levies.
- The minimum level of service for water supply and sewerage services (see assumptions and limitations).
- The diversity of local water utility performance, financial performance and business models and unresolved service risks
- The extent to which alternative funding arrangements could lift the performance of the most poorly performing, smaller utilities to minimum performance without creating disincentives to the efficient operation of good performers.
- Pathways to transition to a new approach over time, including different levels of NSW Government funding or opportunities to reduce risks by better leveraging the State Government's existing investments in publicly owned state-owned corporations.
- Pensioner rebates, noting this part of the review spans regional and metro settings.

Assumptions and limitations

The NSW Government's policy position is that there shall be no forced amalgamations and that councils will continue as the owners of their water and sewerage assets. Continuation of this policy position is a critical assumption of this investigation.

In order to investigate the options for alternative funding arrangements, and in particular the Community Service Obligation option, the NSW Productivity Commission should consider a minimum service standard for water supply and sewerage services. A complete portfolio of basic service levels is not set in NSW, however for the purposes of this investigation can be assumed that the following policy and regulatory settings would continue:

- Water quality: Australian Drinking Water Guidelines as the minimum service level for safe drinking water.
- Water security: Risk based water security service levels.
- Environmental: Compliance with Environment Protection Licences as the minimum service level for the environmental performance of wastewater treatment.
- Fluoridation: All relevant facilities will comply with the Code of Practice for Fluoridation of Public Water Supplies.

Through the consultation the NSW Productivity Commission should consider views as to whether the minimum level of service should change for these assumptions now or over

time. Further, whether any key basic service levels are missing from this list. For example, reliability (service interruptions) or water pressure.

Reporting

The Commission should provide a Final Report to the Minister for Water and the Department of Planning and Environment, and should meet the following timelines leading up to the Final Report:

Deliverables	Delivery date
Issues paper published	Late January/early February 2024
Consultations undertaken on issues paper	March 2024
Draft report (findings and options) published	April/May 2024
Consultation undertaken on draft report	May/June 2024
Final report provided to Government (in advance of publication)	June 2024

In undertaking its review, the Productivity Commission should:

- consult with councils, local water utilities, joint organisations of councils, industry groups, NSW Government agencies, and the community, as appropriate
- leverage from the analysis report from phase 1 of the Town Water Risk Reduction Program, entitled *Financial and operating performance of local water utilities (2022)*, produced by Frontier Economics, which outlines the historical operational and financial performance of local water utilities
- assemble and analyse any other relevant data
- draw on best practice in other jurisdictions, previous reviews, and published research.