28 March 2024

Mr Peter Achterstraat, AM
NSW Productivity Commissioner
Via LWUReview@treasury.nsw.gov.au

Dear Mr Achterstraat,

Response to Alternative Funding Models for Local Water Utilities Issues Paper

Riverina Water County Council (Riverina Water) appreciates the opportunity to make a submission in response to the abovementioned Issues Paper.

Opening

Riverina Water is a NSW Local Government regulated water utility, supplying quality drinking water to the Eastern Riverina region of NSW. Our supply area covers approximately 15,400 square kilometres, servicing four Local Government Areas and a population of over 78,000 people.

Riverina Water has a long history of providing and maintaining the infrastructure necessary for reliable water supply. Although formed under its current name in 1997, the organisation has operated prior to this as part of the Southern Riverina County Council since its inception in 1938. Our water supply facilities are now established with the Murrumbidgee River at Wagga Wagga as the principal water source, supported by three major bore fields also in Wagga Wagga drawing high quality groundwater and feature a network of treatment, pumping, storage and pipework installations across the region, supplying water to over 33,800 connections. In 2021 a new state-of-the-art water treatment plant was opened in Wagga allowing an increased output of up to 55 megalitres per day, further increasing security of regional drinking water into the future.

Riverina Water continues to provide exceptional value to residents in terms of service and value-for-money, with strategic priorities that focus on a customer-centric approach, as well as innovation and sustainability. Riverina Water has an annual turnover of around $32m with a ten-year capital delivery program budgeted to be $190m.

County Councils

There are currently only four water supply county councils operating in NSW. County councils are established under Chapter 12, Part 5 of the Local Government Act 1993 (LG Act). Relevantly, section 394 of the LG Act provides that the functions of a county council are set out in the proclamation establishing the county council, and that:

> *A council (General Purpose Council) may not undertake a function conferred on a county council whose area of operations includes the whole or any part of the council's area, subject to the regulations or a proclamation made for the purposes of this Part.'*

Riverina Water was established by proclamation on and from 2 May 1997. Clause 4 of Schedule A of the proclamation provides that the functions of Riverina Water are 'the functions of a council for the provision, care, control and management of water supply works, services and facilities within its area of operations'.

Riverina Water is a member of the NSW Water Directorate. Riverina Water makes reference and supports the submission by the Water Directorate and provides the following submission.

Challenges from current funding models

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

There are many variables that can significantly impact the ability of usage charges to cover LWU costs, and therefore the financial sustainability of an LWU:

Climate impacts on water usage and sewerage system performance

Water restrictions during drought reduces income from water usage charges. In some cases, water conservation can be seen as 'bad for business' – Riverina Water is at its core, in the business of selling water.

At the other of the spectrum, extended wet weather periods reduce outdoor demand for water, which is a significant proportion of the residential water usage and has the same impact as water restrictions.

High fixed costs

Most LWU's have a high proportion of fixed costs, such as servicing long-term borrowings, principal and interest, in the delivery of major capital projects. Inevitably, our core business is to meet the Australian Drinking Water Guidelines and Environmental Protection Licences (EPL's) to address minimum regulatory expectations. These costs cannot be avoided.

Depreciation of a relatively expensive infrastructure base - water assets are arguably the most difficult fixed cost to manage. Assets were mostly created many decades ago with 50-to-80-year design lives. Impacts of depreciation are perceived to be 'on paper'. Service levels can decline almost imperceptibly over a 10-to-20-year period.

Impacts of climate extremes on regional water and sewerage infrastructure

Major climate events including bushfire and flooding has serious impacts on infrastructure. Water and sewerage infrastructure is excluded from funding under the Disaster Recovery Funding Arrangements (DRFA) Category B even though water and sewerage services are an essential service to any regional community.

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?

Our submission refers to the submission by the NSW Water Directorate and in particular the following key headings in their submission:

Some broad factors affecting cost recovery for small local water utilities:

- The relative cost of the service.
- A community's ability to pay.
- The level of service provided and the risks associated with the service.

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

Capital funding under the *Safe and Secure Water Program* (SSWP) has not met the demand for water and sewerage infrastructure in regional NSW. The previous *Country Towns Water and Sewerage Program* (CTWSSP) contributed $1.27 billion and operated for 24 years between 1994 and 2018, an average of just $53 million per year.

The Safe and Secure Water Program (SSWP) proposed to provide in excess of $1 billion in further funding between 2018 and 2028. This funding is also well known to be insufficient. Changes to the funding rules (via Version 2 of the program) were very welcome to pivot the program to a needs-based model. However, funding has only been sufficient to address Level 5 risks under the Eligible Risks and Issues List (ERIL), appropriately to communities with the greatest socio-economic disadvantage.

There are significant overheads and business case costs for the NSW government to project manage small regional projects. There is significant delay in achieving regulatory approval during the business case, planning and design stages of projects.

It is acknowledged that larger utilities receive the least proportion of capital subsidy for eligible projects under the Safe and Secure Water Program funding rules, without regard to the financial impact on the communities they serve:

Table 1. SSWP funding bands

Annual revenue of proponent (from water and sewerage)	Safe and Secure Water Program funding band
> $20 million (m)	Up to 25%
> 10m to $20m	Up to 50%
> $5m to $10m	Up to 60%
> $2.5m to $5m	Up to 75%
<=$2.5m	Up to 90%

Figure1 - Safe and Secure Water Program funding bands[1]

There can also be perverse consequences with the above approach where a Local Water Utility increases revenue to improve cost recovery but reduces its eligibility for capital funding by moving into a lesser funding band.

Funding model principles

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

There are a few factors that should be considered with equitable distribution of financial assistance for everyday operation of a Local Water Utility as listed below:

- Socio-economic status of customers and community – the ability to pay.
- Risk of service level failure compared with the ability to self-fund solutions.
- The relative cost of the service (economies of scale and remoteness)
- Local Water Utility capacity to deliver operational and capital work

A risk-based approach is important to prioritise funding toward the highest need. There is a different level of risk that emerges with the socio-economic impact on the State of NSW from the risk of a major service failure, especially a drought, on a large regional community such as Wagga Wagga. The consequences of failure are high whilst the proportion of project funding support is lower under the current criteria for the *Safe and Secure Water Program,* as indicated in Figure 1 above. This presents a constraint for larger LWU's to meet service levels in the long term.

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

Although median and average values can be extracted from any data, there is no typical cost to deliver water and sewerage services due to the wide range of operating environment that is beyond the control of the LWU. This includes geographic distance between population centres served, climate, hydrology, management of shared water sources, infrastructure required per capita, short term servicing needs such as tourism.

Water utility costs are dependent on climate impacts and therefore vary significantly between wet years and dry years. It also should be noted that many LWU's are delivering a lower level of service due to funding constraints.

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

Continuous improvement needs to be incentivised for LWU's, doing better every day, month and year whilst acknowledging that wet, dry, and stormy climates plays a huge part in year-to-year performance. Real time data will play a very important part going forward – empowering engineers and operators to intervene immediately on performance issues. Prevention is far better than the cure in service failures – reactive maintenance can cost up to 3 times as much as planned maintenance and asset renewal programs.

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?

The idea that there should be different service levels between different communities in Australia is morally very challenging. Riverina Water supports the comments by the NSW Water Directorate who believe that everyone deserves the same access to safe, secure and affordable water services, whilst acknowledging that the manner in which that service could be delivered will vary.

Realistically however it is acknowledged that not all small communities have access to reticulated water services, with a basic service level being a roof-connected rainwater tank for their water supply. These basic services inherently have a higher risk of failure to meet drinking water health standards or environmental protection standards respectively. More attention could be paid to mitigating risk for unserviced communities.

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

We have no comment to make in this section.

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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?

There is not enough evidence publicly available. Customer service surveys are unreliable for small populations, but this must not detract from the need for basic water and sewerage services at an affordable price.

Regional communities generally pay higher charges whilst not achieving full cost recovery that addresses the total cost of ownership of water and sewerage infrastructure. This is a problem that is unfortunately exacerbated in some communities through the Safe and Secure Water Program due to the donation of large expensive assets that increase costs for operation and subsequent investment in their upkeep.

Although there are requirements to meet the Australian Drinking Water Guidelines (ADWG) under the Public Health Act 2010 (NSW) there otherwise aren't explicit service levels for LWU's. There is also a comparatively wide spectrum of capacity, performance and risk between large regional councils and small rural/remote councils.

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

We have no comment to make in this section.

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

There are already significant burdens on LWU's in monitoring and reporting performance to numerous regulators, with provision of accurate and timely data remaining a significant challenge for small LWU's. Another challenge is context – the operating environment faced by an individual LWU and its local challenges.

It isn't immediately clear from existing operating data that some communities are provided with a lower level of service due to an LWU spending within its means – the ability to make strategic investment into asset upkeep and long-term sustainability can be unaffordable for small LWU's.

Alternative funding options

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

The goal should be for all communities to have access to safe and affordable water supply across NSW, with customer costs comparable to their metropolitan counterparts. In achieving this, there needs to be a clear understanding of what service level is to be provided to each community and how it is to be funded.

Recognition that context is the key. One size does not fit all in regulating LWU performance or in the provision of services to each specific community. There is significant diversity in operating environment for LWU's in regional NSW and a large disparity in the service levels delivered to communities across regional NSW.

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

Debt is often underutilised by LWU's due to the perceived long term financial and political risks to a small LWU. An obstacle is the size of an 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.

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

LWU's have already been severely affected by climate events in the last 5 years between the Black Summer bushfires in 2019-2020, coinciding with the worst drought in 130 years of measurements and subsequent record flooding in 2021 and 2022. The NSW Government through AdaptNSW was assessing climate change impacts on infrastructure through XDI, the Cross Dependency Initiative, which measures climate risk and adaptation analytics. This would drive the recognition of cost impacts on regional infrastructure from climate events. Grant funding should target the mitigation of high-risk services or communities.

Infrastructure standards should be reviewed and updated to improve resilience against climate events based on lessons learned from the last 5 years, including drought management and contingency planning.

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 the two SOCs of Sydney Water and Hunter Water, and the regional LWUs. The SOCs have $650 and $380 pensioner rebates respectively, which are both 100% covered by the NSW Government through a CSO payment, yet regional LWU's have a capped pensioner rebate of $175 per customer ($87.50 each for water and sewer) with the NSW Government only covering 55% of this. There has been no increase in this rebate since 1993. The Issues Paper notes that if this rebate had been increased with CPI it would be worth around $390 per year in today's dollars. The NSW Government should fully fund the pensioner rebates for all LWU's across NSW consistent with the assistance provided to the SOC's and their customers.

There are hidden risks based on other factors:

- When LWU's take on new large assets there are increased costs of operation, depreciation and servicing of borrowings that need to be covered with higher bills
- The 'infrastructure cliff'[2] where a town has been provided with services via donated assets at a point in time some decades ago and the assets reach the end of their useful life at a similar point in time.
- Disaster recovery costs with water assets ineligible for DRFA funding if the service charges are more than 50% of the cost of delivering the service.
- The demand for increased service levels due to increased regulatory expectations and standards.

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?

There are many examples of successful regional collaboration across regional NSW using County Councils, JO's or alliances. The Central NSW Joint Organisation Water Utilities Alliance, and Orana Water Utilities Alliance[3] have been very successful in their regions.

The challenges are insufficient resources and funding to promote regional collaboration. In some parts of NSW there is a lack of political will to drive and facilitate regional collaboration between Local Water Utilities.

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

Assisting LWU's is (in most cases) not clearly authorised for State Owned Corporations (SOC's) through instruments such as their Operating Licence as it isn't 'core business' for a corporation. The SOC's need to have a clear role and mandate to assist LWU's and the mechanism in place for this support to be provided when needed. In addition, there is a lack of problem definition – clearly defined strategies and assistance programs that inform SOC's on LWU needs.

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

Riverina Water has just drafted its first Reconciliation Action Plan (RAP) and is excited to commence giving effect to the Action Plan. We have no other comments to make regarding this question.

Conclusion

Riverina Water appreciates the opportunity to make this submission.

If you have any questions regarding this submission, please contact me on [redacted]

Yours sincerely

[redacted]

Andrew Crakanthorp
Chief Executive Officer