

Stephen Palmer Consulting

Mr Peter Achterstraat AM
NSW Productivity Commissioner
NSW Productivity Commission
52 Martin Place
SYDNEY NSW 2000

Dear Sir,

In relation to the NSW Productivity Commission's Issues Paper *Alternative Funding Models for Local Water Utilities*, February 2024, I pleased make the following submission.

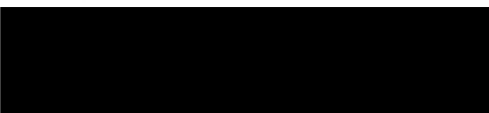
My name is Stephen Palmer, I am Director of Stephen Palmer Consulting, a one-man consultancy that I began in 2016 following a 36-year career in the NSW public sector. I am a Civil Engineer and worked in the delivery and management of water supply projects and programs in regional NSW between 1980 and 1983 as well as 2001 to 2015.

Since 2016, I have continued working with Local Water Utilities, mainly in western NSW, assisting in the delivery of their water supply and sewerage projects under NSW Government funding programs.

My professional interest has been and continues to be the safe, secure, cost effective, affordable and efficient water supply and sewerage services in regional New South Wales, in the hands of local water utilities.

Thank you for the opportunity to comment on the Commission's Issues Paper, I hope my comments are of assistance in the Commission's deliberations.

Yours sincerely,



Stephen Palmer
Director

28/3/2024

Submission – Stephen Palmer Consulting

The Productivity Commission's Issues Paper discusses a range of important and significant topics relating to funding models, levels of service and alternative funding options for the delivery of water supply and sewerage programs in partnership with Local Water Utilities.

While outside the Terms of Reference for the Issues Paper, there may be benefit in considering wider issues that influence the efficiency and effectiveness of any funding method or service delivery. These include:

- Sources of funds; and
- Management, regulation and "where best" in Government for water supply and sewerage programs for regional and remote communities in NSW.

These, together with comments on current and former water supply and sewerage programs are discussed briefly below.

The discussion is far from exhaustive, more of a conversation starter.

1. Current and former funding models for water supply and sewerage infrastructure in regional NSW.

The New South Wales Government's interest and involvement in water supply and sewerage infrastructure and objectives has a long history, commencing in the 1880s with the introduction of the *Country Towns Water Supply and Sewerage Act of 1880 No.35a*. The objective of the Act was:

An Act to establish a system of Water Supply and Sewerage for certain Towns. [12th July, 1880.]

WHEREAS it is expedient to establish a general system by means of which the Councils of Boroughs and Municipal Districts may be empowered to provide an adequate Supply of Water and to construct and maintain Sewerage Works for such Boroughs and Districts where the same are not included within the operation of the "Metropolitan Water and Sewerage Act of 1880"

It is interesting to note that this Act predates the first Public Health Act in New South Wales, the *Public Health Act, 1902*, but more of that later.

Between the 1880s and 1994 there were a number of funding arrangements and programs for water supply and sewerage in regional NSW managed by the then Public Works Department, ranging from the Government undertaking and funding the works then Gazetting ownership, or later Vesting ownership in the local Council, through to a program whereby funding of the construction of new works, replacement of water supply and sewerage assets that had reached the end of their service life,

and special provisions for small towns and other eligible works were jointly funded by the NSW Government and the local Council.

In 1994 the Country Towns Water Supply and Sewerage Program (CTWS&SP) was approved as an \$855 million program to deliver an identified list of water supply and sewerage schemes over (initially) a ten-year period. The new Program was rolled out in 1995. Over time additional works were added to the Program (including the Priority Sewerage projects to improve the discharge of sewage treatment plants in Sydney's drinking water catchment and emergency drought funding for water supply works during the Millenium drought).

Various other changes were made to the CTWS&SP until it was concluded in about 2015 and replaced by the Safe and Secure Water Program (SSWP) versions 1 and 2.

During the period that the CTWS&SP was winding down and had been closed to new applications and the Safe and Secure Water Program (SSWP) commencing, the NSW Government introduced a number of new funding programs across more than one Agency.

These Programs included:

- Water Security for Regions (Infrastructure NSW)
- Resources for Regions (for mining affected communities (Infrastructure NSW))
- Regional Water and Wastewater Backlog Program (the then NSW Office of Water)

While the additional funding was welcome, the management of these programs across Agencies created a level of confusion as to application processes and reporting requirements as well as splitting the available Government specialist professional resources across Agencies.

The current funding model under the SSWP differs from the CTWS&SP in a number of significant ways, including:

- The SSWP was opened to State Owned Corporations (other than Sydney and Hunter Water Corporations). This facilitated approximately 50% of the original Program budget being allocated to WaterNSW for construction and operation/maintenance of the Wentworth to Broken Hill pipeline.
- The Funding Deeds have a funding cap that cannot be revisited and have no provision for inflation or other factors. While the CTWS&SP had no provision for variation in the amount of funding to be provided by the NSW Government, the funding offers were made after tender prices were known. The current construction funding Deeds are executed before tender prices are known. In this post-Covid, international inflation, supply chain issues world these Deeds

are often not fit for purpose and place significant financial burdens and risks on Local Water Utilities.

An improved funding model that would reduce risk to Local Water Utilities would be for funding from the Government to be aligned with an approved design (refer S.60 *Local Government Act 1993*), a known tender price, together with a reasonable contingency for unforeseen expenditure.

A further improvement to the funding models would be the introduction of a Small Towns Water Supply and Sewerage Program.

In hindsight, a perverse outcome of some of the funding programs has been that the smallest and most disadvantaged communities miss out on funding because the relevant local water utility does not have the resources to apply quickly enough, or to be in a position to guarantee its own financial contribution. The larger better resourced LWUs are able to respond to funding opportunities much faster.

All water supply and sewerage programs have had a core objective of overcoming the lack of economies of scale. This is most important in small regional and remote communities.

The development of a long-term program, a minimum of 10 years, with a published list of projects and anticipated funding timeframe, based on needs (public health risks, security of supply, environmental risks, impacts on growth through de-centralisation), targeting communities of less than (say) 5,000 population would be most beneficial. This would foster a level of confidence for LWUs and the component supply industry as all parties would know what's coming up and when.

2. Sources of Funds.

As for the source of funding, including CSOs, apart from Consolidated Funds consideration could be given to:

- Increase the price of water to customers of Sydney and Hunter Water Corporations to fund a regional and remote water and sewerage program;
- Allocate Sydney Water and Hunter Water dividend payments to fund a regional and remote water and sewerage program. This may already be the case, but if it is, then it is not a transparent process;
- Expand the eligibility criteria for Resources for Regions funding to all regional and remote LWUs regardless of mining impacts.

The notion of philanthropy as a source of funding is interesting but difficult to understand. Would funding of a sewage treatment plant be as attractive to a philanthropist as a water treatment plant or dam?

The involvement of third-party management or involvement, whether it be SOC's, other Agencies or the private sector could add a new level of management and associated costs.

3. Management, regulation and “where best” for Water Supply and Sewerage Programs in Government.

While the Commission's Issues Paper states that Local Water Utilities should remain in the ownership of Local Councils (see page 8), there is a degree of discussion about the role of SOC's in broadening collaboration with LWUs (page 10). This may have merit but with all due respect to the SOC's, they do not have legions of professions waiting to assist LWUs in regional and remote NSW. Given the wide range of treatment plant sizes, processes and ages, the most efficient method would be to use the existing LWU water and sewage treatment plant operators. These operators know their systems intimately.

Look briefly at the comparison of the numbers of water treatment and sewage treatment facilities operated by the SOC's and LWUs and consider that whatever the collaboration model there will still need several hundred water and sewage treatment plant operators in regional and remote NSW.

Organisation	Water treatment plants	Sewage treatment plants
Sydney Water	9 with 4 privately owned and operated, plus the Sydney Desalination plant	About 30 (SWC website)
Hunter Water	6	19
Essential Water	3	2
WaterNSW	1	0
LWUs	Over 170 water treatment plants plus 78 chlorinators and aerators.	Over 300

As mentioned above, the consideration of “broadening collaboration” has the risk of adding a level of management and associated costs to an already underfunded sector.

In the past decade, local councils have undertaken a great deal of work in developing Regional Organisation of Councils and Joint Organisations. This approach needs to be further developed in partnership with the appropriate NSW Government Agencies as a vehicle for broadening collaboration without adding to costs.

The issue of “Appropriate NSW Government Agencies” brings us back to where regional town water supply and sewerage is best placed within Government.

Since 1995, when the responsibility for the water supply and sewerage funding program moved from NSW Public Works, it has been contained in:

- Department of Land and Water Conservation;
- Department of Conservation and Land Management;
- Department of Environment, Climate Change and Water;
- Department of Energy and Utilities.
- Department of Energy, Utilities and Sustainability;
- NSW Office of Water (within Department of Primary Industries);
- Department of Industry, Planning and Natural Resources
- Department of Industry, Skills and Regional Development;
- Department of Industry, Water;
- Department of Planning, Infrastructure and Environment;
- Department of Planning and Environment; and now
- Department of Climate Change, Energy, the Environment and Water.

There may have been other Agencies, but it is important to note that wherever the water supply and sewerage program moved to, the Program specialist staff went with it.

Interestingly, at one stage there was a Minister for Water (Phil Koperberg) at the same time as a Minister for Water Utilities (Nathan Reece). The benefit of this was that the Minister for Water Utilities was able to focus on Urban water supply and sewerage priorities rather than the Minister's and Agency's attention being spread over too many issues.

Almost all of the Agencies listed above were or are natural resource managers. While water management is clearly a natural resource undertaking, the management and delivery of town water supply and sewerage programs is a public health undertaking. The only link LWUs' have with a natural resource management agency is as a client through the LWUs' water access license provisions.

NSW Health is the public health regulator of drinking water in New South Wales.

While as stated in the Issues Paper (P 9) there are no mandatory levels of service for LWUs in NSW. Any measures of levels of service, and achievement of such levels of service are all based on NSW Health requirements or guidelines.

These include:

- Boil Water alerts,
- Australian Drinking Water Guidelines,
- Health Based Targets,
- standard for cleanliness of potable water carting vehicles,
- rainwater tank guidelines; and
- the Fluoridation of drinking water.

Given these facts, is the Government oversight of LWUs best handled by a natural resource agency, or a public health agency?

NSW Health would appear to be the logical host Agency for any regional and remote communities water supply and sewerage programs.

This would not set a precedent for NSW Health, as it is the host Agency for the NSW Aboriginal Communities Water and Sewerage Program.

Safe and secure drinking water as well as hygienic, environmentally sound sewage treatment and disposal are matters of public health not natural resource management.