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NSW Productivity Commission

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WSAA submission to NSW Productivity Commission Issues Paper – Alternative funding models for local water utilities

Thank you for the opportunity to provide a submission in response to the Issues Paper for the NSW Productivity Commission's review of alternative funding models for local water utilities. We commend the NSW Government's decision to review the funding models for local water utilities.

Water enables liveable, sustainable and productive cities and regions which are critical to our economic wellbeing and quality of life. By improving the delivery of water and wastewater services in regional areas there will be gains in productivity, prosperity and liveability.

The Water Services Association of Australia (WSAA) is the peak body for water utilities in Australia. Our members provide water and wastewater services to over 24 million people and many of Australia's largest industrial and commercial enterprises. In NSW, our members include 40 local water utilities, including 16 local water utility members, Central NSW Joint Organisation and the Orana Water Utilities Alliance.

Challenges from current funding models

WSAA supports the Australian Government's Productivity Commission's recommendation that the NSW Government should replace existing capital grants to regional local water utilities with transparent Community Service Obligation payments that are not tied to capital expenditure, and that are targeted at unviable (high-cost) regional and remote services.

Capital grants are currently used by NSW to support the delivery of water in regional and remote areas and to promote economic activity. The Australian Government's Productivity Commission has previously stated that sustainable annual funding to maintain service levels is necessary in regional areas, rather than ad hoc capital grants. WSAA agrees that capital grants distort investment decisions and considers that in addition to investing in capital projects, investment is required to raise industry capacity in regional NSW. WSAA considers that when investing in regional infrastructure projects, the NSW Government should apply regional scale planning combined with building capacity and ensure outcomes are linked to the funding.

The capital costs of large water and wastewater infrastructure projects are often only a small component of the lifecycle costs of the infrastructure. In some cases, capital investment in infrastructure made by one local council or regional water utility may have impacts on the operational expenditure of downstream infrastructure owned and operated by another local council or regional water utility.

For example, capital investments may result in increased water prices for all customers of the bulk water service provider, i.e. not just the customer installing the new infrastructure. Incremental changes to the bulk water service provider's price as a result will be a function of the bulk water service provider's connections policy, any subsequent costs needed to

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incorporate the new infrastructure into the existing network, the incremental level of demand facilitated by the new infrastructure and/or pricing framework.

The extent to which capital expenditure drives ongoing annual costs for operation, depreciation and renewals may be overlooked by councils particularly when driven by ad hoc and competitive grants programs.

Due to these potential impacts, it is important that the underlying investment decisions are robust and comprehensive. Failure to consider the future viability of services and alternative options, may have broader implications including on water and wastewater affordability.

In addition to investing in capital projects, investment is required to raise industry capacity to achieve water utility business excellence and develop the capability and capacity of people in regional NSW.

Opportunities for capital investment in regional assets include projects to:

- Address drought, water security and resilience
- Improve drinking water quality
- Renewing assets to ensure service reliability and continuity
- Improving local environmental and liveability outcomes
- Meet the expectations and standards of customers and regulators.

Funding model principles

Factors to consider when calculating government subsidies for local water utilities

Consistent with the NSW Water Directorate submission to the Issues Paper, we consider the following factors relevant to calculating subsidies for local water utilities:

- socio-economic status of customers and community (the ability to pay)
- risk of service level failure compared with the ability to self-fund solutions
- relative cost of the service (economies of scale and remoteness)
- local water utility capacity to deliver operational and capital work.

When investing in water utilities, the NSW Government should apply regional scale planning combined with building capacity and ensure outcomes are linked to the funding.

Typical costs for delivering water and sewerage services

Over the years WSAA has conducted a range of benchmarking exercises with utilities at both an aggregated and very disaggregated level.

From this work we consider that comparing costs on a common basis is very useful in understanding cost and efficiency across utilities. A common basis can be achieved by comparing costs using connections/properties, length of mains, water supplied and wastewater treated among others. Each will be appropriate in different circumstances.

In relation specifically to costs per property, we consider it is often the right place to start in understanding cost structures and efficiency and it is a very useful indicator. It is useful at the total operating cost level and for sub-categories of a utility's services such as water operating cost per connection, wastewater operating costs per connection or corporate costs per connection etc.

However, on its own it is not an indicator of efficiency. As we have often discussed with our

members, a high cost per property on an activity is not necessarily an indicator of inefficiency and a low cost per property is not an indicator of efficiency.

The reason for this is that there are a range of cost drivers that differ significantly across utilities. That is, there are more factors that affect costs than just property numbers. Efficiency is one factor that causes observed cost differences, but it is not the only one. The following is a brief summary of some the key drivers of costs other than efficiency.

Scale

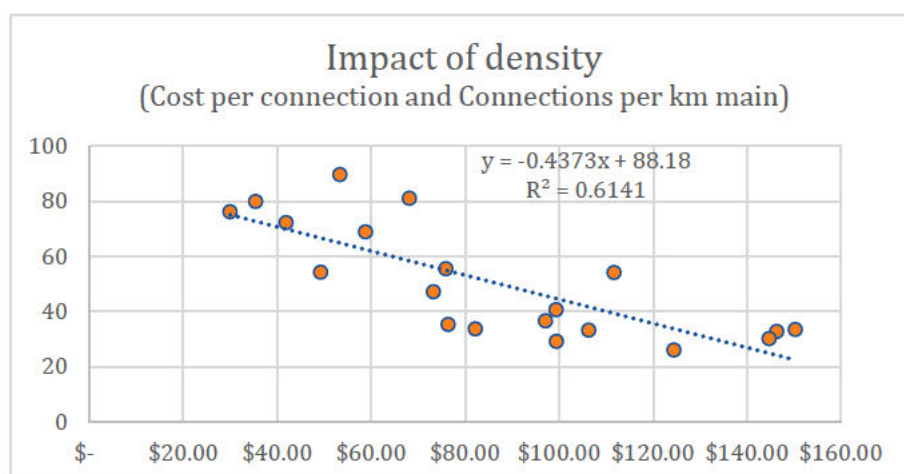
Like most infrastructure industries there are economies of scale in water utilities. For a number of functions, up to a point the larger a utility is the lower the cost of connection. Very small utilities cannot aim for the same costs per connection of larger utilities. Areas where we have found that scale is most important are:

- water networks
- wastewater networks
- retail and other corporate costs (interestingly we have not found scale effects in IT).

In the case of wastewater treatment plants there are significant scale economies at the plant level. Larger plants can be much cheaper per ML treated compared to small plants. However, it is not always the case that large utilities can capture scale economies across their whole operations. For example, in our benchmarking of UK water utilities there are some very large utilities, which by virtue of the areas they serve have very large numbers of small treatment plants. This limits the degree they can realise scale economies in the treatment part of their operations.

Density

The density of a utilities operations is another driver of costs. A city with a high density of connections will face different costs per connection than a utility that services rural areas. In general, the greater the density of a utility's operations (connections per km of mains) the lower the cost of per connection. The figure below illustrates this relationship for water networks using data from Australian utilities. While the relationship is clear, like total cost per property, the graph shows that density is one of the factors affecting costs but not the only one.



Level of water and wastewater treatment

Utilities also differ in the level of wastewater treatment they provide to meet regulatory or customer expectations. Where receiving waters are sensitive for either human use or environmental reasons higher levels of wastewater treatment are required. The costs of tertiary treatment are significantly higher than secondary treatment or primary treatment. Utilities with high levels of tertiary treatment will naturally have higher treatment costs than a utility with secondary or primary treatment.

Likewise, the quality of raw source water will affect treatment costs. For instance, in some cases there are minimal treatment costs where there are high quality water sources in protected catchments. This would need to be accounted for in any cost comparison with catchments where significant treatment is required.

Water source

The source of bulk drinking water is another obvious driver of costs. This factor is becoming more important as utilities meet water security needs in a changing climate. Over the last 20 years the dominant change in water supply is the increase in rainfall independent supplies such as desalination and water recycling. New sources of supply often cost more than traditional surface water sources. This is certainly true of operating costs. Desalination and recycling use significantly more energy than dams. A utility that primarily relies on surface water has a different cost structure than one that relies more on desalination. We note, no NSW local water utilities currently have seawater desalination as a water source, however we understand some are considering seawater desalination as a future supply option.

Topography

Finally, the topography in the area serviced by a utility also has an impact on costs. For example, topography can drive energy and pumping costs. It can also determine the areas for wastewater catchments which will in turn drive the number of treatment plants necessary and the scale of those plants.

Minimum service levels

WSAA supports the Australian Government's Productivity Commissions principles for setting minimum service levels for local water utilities as outlined in the Issues Paper:

- Based on clear and specific rationale – the minimum standard could be framed as a basic rights concept to ensure that all cities, towns and communities in NSW receive a defined base level of service (irrespective of the cost of meeting the standard).
- Clear definitions of service — there are different service dimensions that need to be considered (e.g. water quality, water security, environmental impacts and network/asset performance). For each dimension a compliance threshold needs to be established which could also specify the frequency which compliance must be met (e.g. daily or monthly).
- Measurable user outcomes — the minimum standards are measurable by the local water utilities. This means consideration of data availability and the likely cost of collecting the data.
- Subject to review — local water utility performance against standards will need to be subject to review by an independent party. This will ensure that there is a clear governance framework to monitor performance against the minimum standards established.

Minimum service levels should be co-designed by the NSW local water utility sector, and where possible include the voice of the customer (this may be achieved by including a customer and consumer advocate such as the Public Interest Advocacy Centre). The net

benefit of minimum service levels should be considered.

We note that for Hunter Water and Sydney Water, the performance standards for water continuity, water pressure and dry weather wastewater overflows are set out as obligations in the utility's operating licence. These standards should not be considered a minimum service level. The Hunter Water and Sydney Water standards are different, reflecting the different expectations of their customers.

Alternative funding options

Independent oversight to drive continuous improvement and accountability

WSAA supports the NSW Productivity Commission's position that any independent oversight for local water utilities needs to be proportionate to the capacity and resources of those local water utilities to meaningfully engage with it, and ensure there is a net benefit to customers and the people of NSW.

The NSW Productivity Commission should consider options for an independent governance model for funding of local water utilities. There is an opportunity to co-design the approach with the NSW local water utility sector, and where possible include the voice of the customer.

Outcomes to address the challenges currently faced by local water utilities

WSAA supports the shared vision and objectives of the NSW local water utility sector co-designed by the sector and shared in the [*Regulatory and assurance framework for local water utilities*](#) (July 2022). The local water utility sector includes local water utilities, the department, other regulators, industry associations, the private sector, and other interested stakeholders.

Local water utility sector vision

Safe, secure, sustainable and affordable water and sewerage services for healthy and resilient communities, businesses and the environment, now and into the future.

Local water utility sector objectives

The sector objectives are to continue to ensure:

- safe and secure drinking water supply to protect public health and the environment, and to support economic development and liveability
- effective sewerage services to protect public health and the environment, and to support economic development and liveability
- services that meet customer and community needs, expectations, and preferences
- financially sustainable water utilities with efficient and affordable pricing for services.

Opportunities for capacity development, managing business risks and delivering outcomes in water utilities in regional Australia include:

- improving training, pro-active risk management (including emergency event planning)
- a shift to a digital utility including through increased automation and data analytics; and
- applying assessment management systems aligned to AS/NZS 55001.

Local water utilities that receive a government subsidy should be held accountable in a way that understands the context and capacity of the local water utility, avoiding onerous reporting and documentation.

Including climate change in investment planning

We note that the NSW Department of Climate Change, Energy, the Environment and Water (NSW DCCEEW) provides guidance for local water utilities strategic planning, including

climate change in investment planning and water utility decision making.

In general, water utilities need to understand climate risk to their operations and then embed managing climate risks in their overall risk frameworks. Some high-level principles to consider when including climate change in investment planning include:

- Understand impact of climate change to a water utility's operations and assets, consider interdependencies and cascade effects from short-term events and longer-term impacts (like sea level rise).
- Using the most appropriate climate change scenarios to the operating context, to assess climate risk to assets.
- Look at risk exposure across critical assets and planned projects and determine agreed level of protection appropriate to the water utility.

Supporting customers experiencing vulnerability

We note that the Issues Paper draws attention to the inequity with how high-risk customers across NSW are supported by the NSW Government. Sydney Water customers with Pensioner concession cards receive an annual \$650 rebate fully funded by the NSW Government, with the equivalent Hunter Water customers receiving an annual \$380, both fully funded by the NSW Government. The Hunter Water rebate is similar in value to what is received by Victorian pensioner concession card holders (property owner and tenants). NSW local water utilities have a capped pensioner annual rebate of \$175 (\$87.50 each for water and wastewater service) with NSW Government funding 55% of the rebate, and the local water utility funding 45%.

To support the NSW Productivity Commission's review, we share below a summary of current Government funded concessions for residential water customers, from across Australia.

In Australia, those customers most at risk from high water bills include pensioners, low-income households, health card holders and those experiencing financial vulnerability.

Customers with Pensioner concession cards

- For customers who hold a Commonwealth Pensioner concession card, all states and territories offer concessions for water bills except for the Australian Capital Territory (ACT). In the ACT there is no concession for a water bill, however an additional concession is applied to the energy bill.
- In Victoria these concessions are available to both tenants and owners. In all other states they apply only to property owners.
- The concession to the bill varies from state to state and from one water utility to another.

Other customers experiencing vulnerability

There are no automatic rebates or concessions available to customers who have a health card or are from a low-income household. However, they may be eligible for a number of rebates or grants from the State Government or are reimbursable through CSO payments.

- In Victoria, for customers that meet specific requirements, they can apply for a utility relief grant to assist with water or energy bill debt. These \$650 rebates are accessed once every 2 years and are available for energy or water bills. These are available to owner occupiers and tenants.
- For Western Australian utilities and NSW state-owned utilities (Hunter Water and Sydney Water) the Payment Assistance Scheme/HUGS are a rebate type scheme for customers with water debt. Customers with debt who maintain their payment plans receive a payment

from the water utility against their debt every 4 or 5 payments. These co-payments are funded through a CSO from State Treasury. The advantage of this scheme is that it encourages good payment behaviour and a demonstration from the customer that they are willing to pay down debt.

- For Hunter Water and Sydney Water, the Payment Assistance Scheme is available to both owner occupiers and tenants, noting that not many tenants are aware of the scheme as they do not have a direct relationship with the water utility as all water bills are sent to the property owner.

Some states also have support schemes available for customers who experience a high bill because of a concealed water leak. Schemes differ with some partially funded through a CSO from Treasury, some by the water utility and some as a combination of both. These include:

- Plumbing audit and retrofit schemes for low income/ vulnerable households
- Leakage rebates on a proportion of a high bill that results from a concealed leak
- For customers of Victorian water utilities, Hunter Water and Sydney Water these are available to both owner occupiers and tenants.

Victorian water utilities, Hunter Water and Sydney Water also have obligations to support the safety of customers experiencing family and domestic violence.

Regional collaboration for local water utilities

Smaller regional water utilities lack the economies of scale available to large metropolitan and regional water utilities. Regional collaboration can assist in addressing increasing scale through collaboration. Where regional approaches are in place (eg, Central NSW Joint Organisation, ORANA Water Utilities Alliance, QWRAP) they provide benefits to efficiency and capacity improvements. Smaller regional water utilities can face challenges in allocating sufficient resources and funding to promote regional collaboration.

Government and local water utilities partnering with Aboriginal communities to improve their water and sewerage services

The delivery of safe drinking water plays a critical role in the viability, self-determination, and sustainability of First Nations remote communities. Water is core to life and has an important role in connection to Country. Protecting and managing water is seen as an important custodial and intergenerational responsibility.

Under the United Nations Sustainable Development Goal 6, Australia has committed to ensuring the availability and sustainable management of water and sanitation for all. Although challenging, this commitment should support the rights of First Nations people to remain close to their ancestral lands and commit our governments to closing the gap on the provision of safe and secure water services.

In 2021, WSAA initiated this review of remote water services to elevate these issues in the national conversation, and to recommend ways to close the gap in the delivery of safe drinking water including water quality (health and aesthetic aspects) and water security (reliability of water supply, particularly in the face of climate change). The final report is available on the WSAA website: [Closing the Water for People and Communities Gap: A review on the management of drinking water supplies in Indigenous remote communities around Australia | Water Services Association of Australia \(wsaa.asn.au\)](https://www.wsaa.asn.au/publications/closing-the-water-for-people-and-communities-gap-a-review-on-the-management-of-drinking-water-supplies-in-indigenous-remote-communities-around-australia)

WSAA has recommended that the Australian Government, state and territory governments, local governments and stakeholders must urgently come together with the water industry to:

- Formally recognise and work towards the goal of every Australian community having



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access to water that meets the Australian Drinking Water Guidelines.

- Embed the engagement of First Nations communities in water service delivery – every step of the way.
- Australian, state and territory governments should come together and contribute the resources required to ensure Closing the Gap and Sustainable Development Goal commitments are achieved.
- With local communities, reimagine and reorganise governance and bureaucracy, i.e. which is cumbersome and lacking accountability.

Thank you again for the opportunity to comment. If you would like to discuss these issues further please contact Erin Cini, Director Strategy and Partnerships [REDACTED].

Kind regards

[REDACTED]

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