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NSW Productivity Commission

Response to Issues Paper – Alternative funding models for Local Water Utilities

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MidCoast Council submission – March 2024

Thank you for the opportunity to provide a submission. MidCoast Council is a large regional council on the mid north coast of NSW. Like many other LWUs in recent years, we have experienced unprecedented impacts on our operations arising from drought, bushfire, and the COVID-19 pandemic. Water security, in particular, has been affected by drought. During the 2019-20 drought, MidCoast Council's largest water supply scheme was at very high risk of failure. The Manning Water Supply Scheme provides drinking water to over 35,000 homes and businesses and was weeks away from failure.

Council's objective is to provide safe and affordable water and sewerage services, including ensuring that water security risks are addressed and sufficiently funded.

Please find responses to most of the key questions posed in the issues paper.

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 a several factors that can significantly impact the ability of usage charges to cover LWU costs. These include, but are not limited to:

- A socio-economically disadvantaged area with limited ability to pay for the full cost recovery of water and sewer rates, particularly coupled with cost-of-living increases.
- Increases to costs of providing water and sewer services.
- Climate impacts on water usage – both drought and extended wet weather have an impact.
- Recovery from bushfire and flooding – water and sewerage infrastructure is not eligible under Disaster Recovery Funding Arrangements.

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?

Some reasons for different performance levels of local water utilities are:

- The relative density of water and sewer systems – large systems with a low population density cost more to operate and maintain on a per connection basis.
- Different requirements from regulators - NSW Health and NSW EPA can have different expectations between areas and over time.

- Higher turnover of staff, with organisational, local and system knowledge lost each time – increased costs.

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 the MidCoast and regional NSW. Some funding requires the relevant regional strategy to identify the need for a project and the Hunter Regional Strategy requires updating. The current version does not mention the significance and extent of the water security issues facing the MidCoast.

- Some Level Risk 5 projects were funded under the SSWP to achieve ‘shovel-ready’ status however, there is no commitment to construction funding, even for major projects required to provide water security to over 80,000 people.
- Due to MidCoast Council’s total water and sewer revenue, Council was eligible to 25% funding under the SSWP. Council have received some funding for water security projects under the program, however it was for concept and design phases only, with a cutoff of June 2024.
- MidCoast Council may be one of the 14 large LWUs achieving 100% cost-recovery¹, however this may not be the case in the future with large water security capital expenditure required, and no indication of sufficient state and/or federal government funding.
- Linking the percentage of funding with total revenue does not consider the spread or volume of water and sewer assets MidCoast Council has 20 water and sewer schemes spread out across its 10,000km² LGA, including small schemes. LWUs with higher revenue may have higher funding needs for significant infrastructure required to high risks.
- The state has a role to play in addressing water security risks and this should be reflected in funding for solutions to those water security risks.
- It can be difficult to understand the expectations of state and federal funding providers, in terms of business cases.
- Once funding is obtained, the timeline for delivery is often unrealistic or inflexible, and doesn’t take into account that there can be significant delay in achieving regulatory approval during the business case, planning and design stages of projects.
- There can be conflicting regulatory agency advice during the planning and design stages of projects, further increasing overall project delivery timeframes.

Funding model principles

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

The following factors should be taken into account:

- The risk of service level failure compared with the LWU’s ability to self-fund a particular project.
- The density of water and sewer connections and the risk being addressed by the project funded by the capital grant rather than just revenue or size of the LWU.
- The socio-economic status of the area which affects the community’s ability to pay.
- The relative cost of the service (economies of scale and remoteness)

¹ Table 4: Proportion of utilities achieving cost-recovery between 2016 and 2022, by LWU size

- Reasonable and transparent corporate overheads linked to internal levels of service – to show strong corporate governance and that water and sewer revenue from ratepayers' is being used responsibly.
- The LWU's capacity to deliver operational and capital work.

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?

People in NSW should expect the same levels of service from water and sewer schemes no matter where they live. There shouldn't be two significantly different levels of service in Australia based on equitable access to service that is essential to human life. However, as there are significant challenges for small and/or remote LWUs to provide the same level of service as larger LWUs, any universal minimum LOS needs to be supported by sufficient funding, resources and technical support. Ideally this would include Sydney Water and Hunter Water.

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

The following metrics could be considered:

- Drinking water quality
- Treated effluent quality
- Percentage of non-revenue water or leakage
- Minimum acceptable asset conditions for different asset sub-classes

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

The following are considered barriers:

- The financial and technical capacity of LWUs to meet the service levels.
- Difficulty in comparing like with like regarding treated effluent quality across the state considering different receiving environments.

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

- The cost of measuring, monitoring and reporting for smaller LWUs, particularly if parameters are not already measured.
- Staff turnover, attracting and retaining staff affecting the capacity of a LWU to measure and report.
- Challenges with consistent data quality

Alternative funding options

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

The desired outcomes should be:

- All communities have access to safe and affordable water supply and sewerage services across the state.
- LWUs have sufficient funding to address all high-level risks (e.g., ERIL risks 4 or 5)
- All councils should have a better internal understanding and perception of the water and sewer side of the business.

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

- Level of understanding of debt and long-life assets
- Perceived long term financial and political risks of debt to LWUs.

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

Those most at risk are people who are disadvantaged socio-economically with limited ability to pay, including pensioners.

Regional LWUs have a capped pensioner rebate of \$175 per customer (water and sewer combined) 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 LWUs across NSW consistent with the assistance provided to Sydney and Hunter Water and their customers.

Concluding comments

A Local Water Utility's objective is to provide safe and affordable water and sewerage services, including ensuring that water security risks are addressed and sufficiently funded. Developing an alternative funding model for regional LWUs is welcomed and would provide benefits from sustained long-term state investment in budget support for water and sewerage services. Optimising the whole-of-life costs for water and sewerage infrastructure is also important.

MidCoast Council supports a needs-based, evidence-based approach to assist socio-economically disadvantaged communities that lack access to economies of scale. It is important to generate a better balance between capital and operational support in any alternative funding model.

Increasing funding to LWUs is not the only answer. Having access to skills is critical, along with modern management systems. This would provide the foundation for more resilient, sustainable water and sewerage services including delivering climate independent supplies. Council would like to see state government funding and technical support targeted towards skills and training, and digitalisation as an important first step.

Thank you for the opportunity to make this submission. If any further information is required, please contact me on [REDACTED]

Yours sincerely,

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