

LGNSW SUBMISSION

# NSW Productivity Commission Review of Funding Models for Local Water Utilities

APRIL 2024





Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

## OVERVIEW OF THE LOCAL GOVERNMENT SECTOR



Local government in NSW employs **55,000 people**



Local government in NSW is responsible for about **90% of the state's roads and bridges**



Local government in NSW looks after more than **\$177 billion** of community assets



NSW councils manage an estimated **4 million tonnes of waste** each year



Local government in NSW spends more than **\$2.2 billion** each year on caring for the environment



NSW councils own and manage more than **600 museums, galleries, theatres and art centres**



NSW has more than **350 council-run libraries** that attract tens of millions of visits each year



NSW has more than **400 public swimming and ocean pools**

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## Opening

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils, county councils, and related entities. LGNSW facilitates the development of an effective community-based system of local government in the state. As the peak body representing councils in NSW, we aim to support, promote, and advocate for the interests of council owned local water utilities (LWUs).

LGNSW welcomes the NSW Productivity Commission's [review of funding models for LWUs](#) and appreciates the opportunity to provide a submission. In preparing this submission, LGNSW has conducted consultations with a diverse array of stakeholders, including councils and the NSW Water Directorate. The NSW Water Directorate is a partnership between LWUs and LGNSW.

This submission was endorsed by the LGNSW Board in May 2024.

NSW councils are responsible for providing water and sewerage services to more than 1.9 million people in NSW outside the areas serviced by the Sydney and Hunter Water Corporations. These services are provided by 89 council owned LWUs.

LGNSW provides support and advice to member councils on water policy and industry best practice, as well as representing the views of local government to the state and federal governments and other key stakeholders.

LGNSW's policy priorities for the delivery of water supply and sewerage services in regional NSW include:

### **1. Management and ownership**

Local government should retain control over water services and infrastructure to ensure effective management and integrated planning. This approach fosters community-oriented outcomes and sustainable service provision.

### **2. Local governance**

Governance arrangements need to ensure decision-makers are accountable to the communities that are to benefit from and fund the provision of water supply and sewerage services, as well as for the achievement of broader whole-of community outcomes.

### **3. Best practice pricing**

Decision making with regards to water pricing needs to be socially, environmentally, and economically sustainable, responsive to local community needs, and flexible to enable local water utilities to respond to changing circumstances. Pricing decisions should continue to be guided by the best practice pricing policies required by NSW Department of Climate Change, Energy, the Environment and Water (DCCEEW).

#### **4. Regulatory Framework**

Regulatory arrangements need to be improved to avoid regulatory duplication, inconsistency, and conflict; regulatory arrangement should facilitate integrated water cycle management and encourage regional solutions/models to facilitate catchment based planning and water resource sharing arrangements among utilities.

#### **5. Funding Water Security**

To ensure local water utilities throughout regional NSW have the financial capacity to deliver safe and secure water supplies and sewerage services to meet the needs of the communities they serve on an equitable basis. It is recognised that ongoing financial support from the NSW Government will be required to deliver this outcome.

### **Background**

The NSW Productivity Commission has been tasked by the Hon. Rose Jackson MLC, NSW Minister for Water, with investigating funding options aimed at reducing service risks for LWUs in NSW. This inquiry recognises the vital role that water, and sewerage services play in safeguarding the health and well-being of communities throughout the state.

Acknowledging the recent Parliamentary Inquiry on Protecting Local Water Utilities from Privatisation (the Parliamentary Inquiry), it is notable that central to this review is the government's commitment to preserving council ownership of water and sewerage assets. This has been tied to the assurance that there will be no forced amalgamations of LWUs, reinforcing the importance of local governance and ownership in managing essential services. LGNSW has strongly welcomed these commitments. LGNSW's position on ownership and management of LWUs is also set out clearly in its [submission](#) to the Parliamentary Inquiry.

The review's terms of reference (refer to Appendix A) highlight key considerations, including establishing minimum service levels, understanding the diverse landscape of local water utilities, and identifying funding models that incentivise ongoing performance improvements. Further, the review aims to explore transition pathways to alternate funding models, identify opportunities to tap into the expertise of State Owned Corporations' expertise, and address affordability concerns. LGNSW aims to address each of these key considerations in our submission.

### **LGNSW Response to Review Questions**

In preparing our submission, LGNSW has structured our responses to address each of the key questions raised in the [issues paper](#) as per below.

## Challenges from current funding models

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

The ability of LWUs to recover costs through user charges is primarily driven by the cost of delivering the services and the capacity of customers to pay.

In terms of capacity to pay, it should be recognised that many LWUs serve communities that have a high level of socio-economic disadvantage.

Costs are determined through the complex interaction of numerous factors including:

- operational costs
- level of past provision for infrastructure renewal
- condition of assets and maintenance requirements
- inflation and wage growth
- size of customer base
- settlement pattern/population dispersal
- location
- average rainfall
- climate change and vulnerability to natural disasters
- statutory and regulatory compliance (e.g., Australian Drinking Water Standards).

Most of these factors are outside the control of LWUs.

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

LWU size	Regional		Remote	
	Number of Utilities <sup>13</sup>	Proportion achieving cost-recovery 2016-2022 <sup>14</sup>	Number of Utilities <sup>15</sup>	Proportion achieving cost-recovery 2016-2022 <sup>16</sup>
Very Small (Less than 2,000 connections)	11	43%	8	50%
Small (2,000-10,000 connections)	34	90%	8	50%
Medium (10,000-20,000 connections)	10	100%	0	NA
Large (20,000-50,000 connections)	14	100%	0	NA
<b>Total</b>	<b>69</b>		<b>16</b>	

Note: We considered a utility achieved cost recovery if its annual ratio of revenue to expenses was greater than one on average over the years 2016 to 2022.

Source: DCCEEW, Frontier Economics analysis, NSW Productivity Commission analysis.

As noted in the table above from the NSW Productivity Commission's issues paper. Larger LWUs, especially those serving regional areas with over 10,000 customers, typically exhibit better cost recovery due to economies of scale. While this underscores operational efficiency, it is essential to consider diverse factors beyond size alone to ensure equitable service provision.

In comparison, smaller LWUs and those located in remote areas face greater challenges in cost recovery. This may be due to their smaller customer base, customer

base with a limited capacity to pay and the higher operational costs associated with servicing dispersed populations.

## **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?**

The performance variation among LWUs of similar size and remoteness can be attributed to various factors. As for Question 1, it is likely to involve the interaction of factors including: operational costs, asset condition and maintenance and infrastructure investment requirements, settlement patterns/population dispersal, location, comparative average rainfall, vulnerability to climate change and natural disasters. Each LWU may face unique circumstances and challenges in managing these cost factors, leading to differences in their level of cost recovery.

It is also likely that the differences in cost recovery will be a legacy of past planning and decision making. Customer/community capacity to pay will also be a major determinant.

It is noted that LWUs operate under a modern pricing framework including targeting full cost recovery, pay for use water pricing and developer charges. The pricing framework complies with the requirements of the National Water Initiative Pricing Principles. Water bills are relatively higher in remote areas, impacting cost of living pressures for vulnerable communities and therefore making cost recovery challenging.

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

Across regional NSW, around 1.9 million people depend on safe, secure, and affordable drinking water and sewerage services provided by LWUs.

The key challenge is the inadequacy of successive funding programs. The NSW Government has recognised this funding need. It has been providing infrastructure funding assistance since 1994 by way of the *Country Towns Water Supply and Sewerage Program*. The *Safe and Secure Water Program* (SSWP) has been contributing to the significant progress towards best practice and helping to ensure safe and secure water supply and sewerage services throughout the whole of regional NSW. However, this program still has not managed to eliminate the water and sewerage supply infrastructure backlog.

LGNSW is concerned that the SSWP is nearly exhausted and has been advocating that the NSW Government renew the program with an injection of at least another \$1 billion.

LGNSW notes that many LWUs have concerns about the application and administrative processes associated with the SSWP. (Please refer to the Water Directorate's Submission for more detailed discussion of this issue).

## Funding model principles

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

The overarching consideration should be need and be determined by factors including the following:

- **Population size and remoteness:** Government subsidies can be allocated equitably in a way that addresses the specific needs of each community, ensuring that residents have access to safe and reliable water services, regardless of their size or location.
- **Socioeconomic status of customers and communities (SEIFA index):** Government subsidies and rebates should consider the affordability of water and sewerage services for customers, particularly low-income households, and vulnerable communities.
- **Financial capacity:** Factor in the LWU's financial capacity to cover operational expenditure and fund necessary capital expenditure ensuring that they can maintain the water operations and infrastructure over time.
- **Risk of Service Failure:** Interrupting water availability to communities and potentially jeopardising health.

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

Costs for delivering water and sewerage services include day-to-day operating costs including labour, chemicals, and other materials. Other costs include regulatory and compliance costs and capital expenditure.

Operating costs are also dependent on the size of the LWU and vary between different LWUs based on factors such as geographic distance between population centres served, climate, hydrology, management of shared water sources. Water utility costs are also dependent on climate impacts and therefore vary significantly between wet years and dry years.

According to DCCEEW data, a larger LWU such as MidCoast Council incurred \$44.6 million in operating costs for the provision of water supply and sewerage services in 2021-22. In comparison, a mid-size LWU such as Singleton Council incurred \$7.1 million and smaller size Walcha Council incurred \$1.1 million.

Based on the above it is clear that a typical cost cannot be determined or uniformly assigned.



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

Potential drivers and indicators of performance include:

Type of indicator	Indicator	LGNSW Comments
Economies of scale	<ul style="list-style-type: none"> <li>• Length of mains per km</li> <li>• Network size</li> <li>• Population Density</li> <li>• Number of connections</li> </ul>	<p>These indicators should be considered simultaneously as no singular indicator can best illustrate economies of scale with LWUs. Note that council ownership also provides economies of scale through the sharing of resources, including skills and operational services.</p>
Financial performance	<ul style="list-style-type: none"> <li>• Cost recovery %</li> <li>• Typical residential bill</li> <li>• Operating ratio</li> <li>• Debt service ratio</li> <li>• Infrastructure backlog ratio</li> <li>• Asset maintenance ratio</li> </ul>	<p>The ability for a LWU to recover its costs through user charges is generally related to its size and location. Larger LWUs in coastal areas and regional cities generally may have much stronger balance sheets due to their larger customer base allowing for economies of scale but this cannot be taken as a given. For example, such LWUs may be struggling with growth pressures and infrastructure backlogs.</p>
Operational performance	<ul style="list-style-type: none"> <li>• Water supply interruptions</li> <li>• Average main breaks</li> <li>• Leaks/day (leakage)</li> <li>• Boiled water alerts</li> </ul>	<p>The operational performance of LWUs is often viewed in relation to service reliability such as water supply interruptions and main breaks. However, it is noted that performance improvements are also influenced by climate events that play a huge part in year-to-year performance.</p>

There are innumerable performance measures and none of them can be considered in isolation from other indicators. Further it is the trend over time revealed by the indicators rather than the snapshot, that is relevant. Some indicators are simply

descriptive and do not actually measure performance and many are outside the control of the LWU.

Under the Town Water Risk Reduction Program (TWRRP), a new Regulatory and Assurance Framework (RAF) was established to enable LWUs to address risks and strategic challenges. NSW DCCEEW monitors and reports on performance of LWUs in its annual NSW Water Supply and Sewerage Performance Monitoring Report and NSW Water Supply and Sewerage Benchmarking Report. These reports provide a comprehensive suite of performance indicators and benchmarking data for all NSW LWUs enabling each utility to benchmark its performance against that of similar utilities to facilitate performance improvement. Further, LWU performance is also documented in council or county council annual reports, subject to public scrutiny. LWU performance is overseen by councillors who are electorally accountable, further ensuring transparency and accountability in service delivery.

### 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?**

There are currently no minimum service levels for all aspects of service delivery from LWUs. While consistency in services is desirable, flexibility should be allowed to accommodate the LWU's variations in size, remoteness, and costs. Minimum service levels are important objective but requires a funding source from the government in order to achieve it.

While minimum standards in some areas such as water quality are covered by the Australian Drinking Water Guidelines. LWUs should consider the needs of their community when determining appropriate service standards, ensuring that their water services remain accessible as a one size fits all approach may not be feasible.

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

Appropriate metrics could include:

- **Water quality:** Levels of contaminants (e.g., bacterial, heavy metals, toxins) and compliance with the Australian Drinking Water Guidelines.
- **Service reliability and performance:** Measures such as the number of breakdowns, disruptions, and response times for repairs.
- **Water security:** This includes drought and flood resilience, but it needs to be recognised that LWUs are limited in their ability control extreme events induced by climate change.
- **Water and sewerage Bill:** Cost to customers.

- **Public health:** Health based targets measures (e.g., compliance with health regulations) the effectiveness of water services in protecting community health.
- **Environmental impact:** Energy consumption, environmental compliance indicators can help assess the LWU's environmental footprint of its water service operations.

**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?**

This information is gathered through the development of Integrated Water Management (IWM) plans of many LWUs. LWUs publish their performance and strategic management plans as part of ongoing community consultation and engagement to understand community needs and desired levels of service. For example, MidCoast Council's 2050 Water Cycle Management Strategy was developed with a strong range of community input to help guide the council's approach in addressing water security. Further, relevant data such as the volume of water supplied, capital investment amount in water and sewerage assets, and compliance rate per the Australian Drinking Water Guidelines are published in the council's annual report for the reporting year. In terms of financial performance, annual charges and expenses relating to water supply are also published in the financial statements.

Alternatively, councils may apply the Integrated Planning and Reporting (IP&R) process used more widely in local government.

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

**Resourcing constraints:** Financial and technical expertise to develop and implement measurement systems for service levels. This means consideration of data availability and the likely cost of collecting the data. LWUs may lack the capacity to invest in data collection and reporting mechanisms.

**Changing needs and expectations:** Community needs and expectations regarding water and sewerage services may evolve over time due to factors such as population growth, climate change, and technological advancements. LWUs must continually reassess and adapt their service levels to meet evolving demands

**Service delivery:** Water and sewerage services are complex, involving various interconnected components such as infrastructure. Defining measurable service levels that capture this can be challenging.

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

The main challenges with monitoring and reporting against minimum service levels include the costs and capacity to measure and report from LWUs. Limited financial and technical resources can hinder efforts to develop a robust monitoring system. Furthermore, while existing performance measurement provides a starting point for monitoring performance, ensuring the accuracy, quality, and timeliness of data collection and reporting can be challenging, particularly in remote areas where resources may be scarce. Additionally, making performance data publicly available in a timely manner poses a challenge, as it requires significant effort and coordination.

Regulatory compliance requirements may impose additional administrative burden on LWUs. Minimum service levels are driven by a number of NSW Government agencies, including NSW DCCEEW, NSW Health and NSW EPA. These agencies have a significant influence on minimum standards and therefore the costs of service provision.

### Alternative funding options

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

Challenges currently faced by LWUs include the need to invest in capital infrastructure and assets to enhance drinking water quality, water security, and environmental protection, especially in the aftermath of recent natural disasters such as the 2022 NSW floods. LGNSW supports the introduction of a Community Service Obligation (CSO) model to assist socio-economically disadvantaged communities in accessing essential water services. This is particularly crucial for small and remote communities like [Walgett](#), where water insecurity poses significant health risks.

Furthermore, it is noted that there are funding disparities, as evidenced by larger LWUs receiving a smaller proportion of capital subsidies under the Safe and Secure Water Program<sup>1</sup> as per the table below.

### Program subsidy levels for local councils and local water utilities

Average combined revenue of proponent (from water and sewerage)	Safe and Secure Water Program funding band
> \$20,000,000	Up to 25%
> \$10,00,000 to \$20,000,000	Up to 50%
> \$5,000,000 to \$10,000,000	Up to 60%
> \$2,500,000 to \$5,000,000	Up to 75%
<=\$2,500,000	Up to 90%

<sup>1</sup> Extracted from DCCEEW website, [Program funding information | Water \(nsw.gov.au\)](#)

LGNSW supports the development of an alternative funding model for council-owned LWUs in NSW, including the potential implementation of a needs-based CSO model. This approach is driven by the understanding of the high stakes involved when water and sewerage services fail, posing severe risks to public health, the environment, and local economies. The cost of service and the absence of economies of scale in remote LWUs make a CSO model essential.

The NSW Government should consider aligning the CSO model with the Federal Government's Financial Assistance Grants (FA Grants) which are paid to councils across the country on an agreed set of national principles, and the specific formula developed by each state's Local Government Grants Commission.

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

There are no major governmental or institutional obstacles to the greater use of loans by. However, councils/LWUs do need to satisfy standard TCorp credit criteria to access TCorp loans. Loans from commercial banks are more readily available but are not favoured as they have a significantly higher interest rate than TCorp. The relatively high interest rates that have applied over recent years have also been a general obstacle.

Due to its non-commercial focus, local government typically make limited use of debt. Many councils (and LWUs) have debt free policies due to financial and political risk aversion. Financially, factors such as fluctuating interest rates, changes in government funding, and unexpected costs can impact their ability to service the debt and may deter councils and LWUs from seeking loans. Political aversion arises from the public perception that debt is bad and a sign of poor management. A view perpetuated and reinforced by the increasing emphasis of State and Federal Governments and the media on debt reduction and triple A credit ratings.

Consequence of debt aversion by LWUs and councils may include infrastructure maintenance and renewal backlogs. It may also distort intergenerational equity.

However, this perspective is changing with many councils recognising that in order to ensure intergenerational equity in funding long term infrastructure investments, they may need to resort to the prudent use of loan borrowings, debt instruments, or other forms of financing from time to time from financial institutions such as TCorp.

LGNSW supports the prudent use of debt to finance long term infrastructure.

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

Measures should include incorporating climate resilience measures into investment planning. Several reviews have highlighted the critical importance of LWUs having resilient water systems in place that can respond to the increased frequency and

severity of natural disasters due to the changing climate. For example, the Federal Government's Productivity Commission noted that increasing average temperatures, higher-intensity rainfall and other extreme weather events could threaten long-term water security in regional and remote Australia.

Climate change events pose additional challenges for water and sewerage infrastructure, which requires LWUs to invest in climate-resilient infrastructure to mitigate the impacts of climate change. Previously, the NSW Government through AdaptNSW was assessing climate change impacts on infrastructure through XDI, a market tool that assesses climate risk to infrastructure. Early development of XDI was funded through the Building Resilience to Climate Change grant program of LGNSW and the Office of Environment and Heritage, co-funded by the NSW Environmental Trust. This initiative would drive the recognition of the cost impacts on regional infrastructure from climate events. LGNSW recommends a feasibility assessment be carried out on application of the XDI for councils. It is suggested that this involves a pilot in a small and larger-sized council, with the results to be shared with councils prior to implementation.

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

Customers including low-income household residents, those in remote communities and discrete Indigenous communities, are the most at risk from high water bills in regional NSW. Average bills are almost 30% higher for small, remote LWUs when compared to similar sized LWUs in less remote areas.

It is noted that there are rebate schemes in place to assist pensioners in NSW, but the rebate has been capped at \$87.50 for water and sewerage since 1993, a declining fraction of average water and sewerage bill and with no regard to differences in bills between locations. LGNSW advocates for an increase in the pensioner rebates and full funding by the State and/or Federal Governments.

It should also be noted that rebates do not apply to other groups with limited incomes. Expanding similar rebates to low-income households would improve the affordability for customers but would require government support.

#### **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?**

It is noted that in NSW, there is collaboration occurring across LWUs through Regional Alliances, County Councils, Joint Organisations and Regional Organisation of Councils. LGNSW supports collaborative models at a regional level between councils to retain local community involvement and control over water and sewerage services. Regional alliances enable LWUs enhance efficiencies by capturing economies of scale, resource sharing and coordinated service planning.

Alliances such as the Central NSW Joint Organisation Water Utilities Alliance and Orana Water Utilities Alliance share skills and resources. Shared functions include coordination of supply and demand planning, strategic business planning, joint asset management, drinking water quality management and workforce development.

Challenges of the alliance model include insufficient funding to promote regional collaboration. LGNSW recommends that the NSW Government consider delivering permanent ongoing funding for regional water alliances of councils to assist them with delivering efficient water and sewerage services. In 2021 the Queensland Government approved \$2 million per year on a permanent basis for the State's Queensland Water Regional Alliance Program (QWRAP)<sup>2</sup>. The program was piloted for a number of years and demonstrated year-on-year benefits that culminated in the announcement of permanent funding. There are numerous intangible benefits of agency-to-LWU relationships that could be harnessed for strategic improvement, or emergency and incident management. The NSW Government should adopt a similar funding arrangement mechanism to assist in promoting regional collaboration among LWUs.

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

LWUs could benefit from leveraging the technical expertise of state-owned corporations (SOCs) like WaterNSW, Hunter Water, and Sydney Water Corporation as identified in the issues paper. By entering into service level or partnership agreements with SOC, LWUs could access specialised technical expertise and resources in areas such as project management, strategic planning, and operational support. This collaboration can help address capability gaps in regional communities, particularly in areas such as dam safety, water quality management, and strategic analysis.

In terms of challenges, there may be potential conflicts of interest and differences in organisational priorities, as SOC are commercial entities with objectives that may not align with the community objectives and needs of LWUs. In addressing this issue, there needs to be clearly defined strategies and assistance programs that inform SOC on LWU needs.

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

The NSW Government and LWUs could better partner with Aboriginal communities through targeted funding and policy initiatives.

For example, LGNSW and the Water Directorate have been working with the NSW Government and the NSW Aboriginal Land Council on the Aboriginal Communities Water

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<sup>2</sup> More information on Q-WRAP available at [QWRAP\(qldwater.com.au\)](http://QWRAP(qldwater.com.au))

and Sewerage Program (ACWSP) to deliver improved water supply and sewerage services to discrete Aboriginal communities in NSW.

This program commenced on 1 July 2008 where long-term funding is provided for councils and their LWUs to provide operational, maintenance, and monitoring services of urban water systems in Aboriginal communities (\$200 million over 25 years jointly funded by the NSW Government and the NSW Aboriginal Land Council). Regular meetings are held with Aboriginal community members, LWUs and NSW Health to understand the needs in improving existing infrastructure and service levels.

As a result of this program, 62 discrete Aboriginal communities with a total population of more than 6,000 people are receiving better water supply and sewerage services. This program is an effective model that has been working well for a number of years and should be continued. It is imperative that the NSW Government continues to engage and consult with Aboriginal communities and local councils together on water service provision for small communities. Access to long-term, untied funding combined with technical support and building local skills should be a long-term objective for small communities.

## Conclusion

LGNSW appreciates the opportunity to contribute to the NSW Productivity Commission's review of funding models for LWUs. Our strong advocacy for local government ownership and control of LWUs reflects our commitment to maintaining the high standards of service, financial sustainability, and local community involvement in the water supply and sewerage sector.

Developing a new alternative funding model for LWUs would represent a transformational opportunity for regional communities in NSW. The benefits from state investment in budget support for water and sewerage services to complement capital project subsidies will not only assist regional communities but will ultimately flow back to the state through improved economic development.

If you have any questions regarding this submission, please contact:

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## Appendix A – Terms of Reference

### NSW Productivity Commission review of funding models for local water utilities

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.

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.

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.