

**Submission
No 3**

**JOINT SELECT COMMITTEE ON PROTECTING LOCAL WATER UTILITIES
FROM PRIVATISATION**

Organisation: Shoalhaven Water

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Joint Select Committee on Protecting Local Water Utilities from Privatisation

Parliament of New South Wales
Macquarie Street
Sydney NSW 2000

Shoalhaven Water submission – October 2023

Inquiry into how the Government can prevent and stop privatisation of local water utilities

Thank you to the Joint Select Committee for the opportunity to provide a submission to the inquiry.

Shoalhaven Water is one of 90 local government owned water utilities (LWU's) in regional NSW. Further information about us can be found at: www.shoalwater.nsw.gov.au

Shoalhaven Water Key Information

Table 1 - Features of Shoalhaven Water

• 54,000 connections	• 180,000 permanent population served Up to 600,000 peak population served
• Customers span 4,567 square kilometres	• 2.7 million visitors each year
• 4 water treatment plants	• 13 sewerage schemes
• 16.5 GL per annum of water supplied	• 7.5 GL of sewage treated annually
• Beneficially reuse approx. 900 ML reclaimed water each year	• Reuse 100% biosolids each year
• \$2 Billion total replacement cost of assets	• \$100 million in annual revenue
• 2,900km water/sewer mains	• 1,500 pressure sewer systems
• 180 water/sewer operators	• 80 managers, engineers, technicians and business administration staff

Shoalhaven Water is a highly regarded semi-autonomous business unit that manages extensive critical water and sewerage infrastructure on behalf of Shoalhaven City Council and its community (approximately 45 towns and villages). The very nature of the water industry requires an enormous diversity of human skillsets, that cannot be realistically filled by permanent in-house staff, thus requiring outsourcing to the private sector. Shoalhaven Water is well positioned to continue to serve the community under the current local government structure, with selected input from the private sector.

In the last few years, Shoalhaven has experienced unprecedented impacts on water supply and sewerage systems arising from drought, severe bushfires, floods and the COVID-19 pandemic. By the end of 2019, the worst drought in 130 years of records was immediately followed by severe floods and the pandemic, placing extreme stress on the utility and indeed its staff.

It should also be noted that Shoalhaven Water manages water and sewerage infrastructure within Jervis Bay Territory under contract with the Federal Government Department of Infrastructure, Transport, Regional Development and Communications (DITRDC). Federal Government funding has been granted to DITRDC for connection of Jervis Bay Territory to the Shoalhaven water supply network, so will effectively become a customer of Shoalhaven Water.

Shoalhaven's water and sewerage services are provided to a number of local indigenous communities as well as approximately 1 million tourists to the area each year.

Shoalhaven Water Submission

(a) How local water utilities and their assets can be best protected against privatisation, forced amalgamations and sell-offs

Need to Avoid Perverse Outcomes

Shoalhaven City Council (Shoalhaven Water) supports protections against privatisation and/or sell off, provided there are no perverse consequences with outsourcing to the private sector. It is believed that this issue will be addressed with the measures to be implemented for Sydney Water and Hunter Water, who also have a considerable need for private sector input.

Shoalhaven Water is one of the largest LWU's in regional NSW and it is acknowledged that it does not have the scale to specialise in many water related functions. Careful planning is undertaken to determine those functions to be maintained "in-house" and those to be outsourced. Some examples of outsourced functions to the private sector include:

- Larger (complex) design and construction services
- SCADA and telemetry services
- Supply of materials (eg, pipes, valves, pumps, electrical and mechanical equipment etc)

Shoalhaven Water has also been impacted by "the great resignation" requiring, in some circumstances, the engagement of the private sector to temporarily fill key vacant positions. The ability to engage short term contract employees is imperative to keep essential water and sewerage services available, particularly during extreme incidents and climate events.

Financial Perspective

The Shoalhaven Water typical residential bill for water and sewerage is \$1,119.11 (2021/22), lower than the median for NSW and Nationally. Shoalhaven City Council has full responsibility for setting the water and sewerage availability and usage charges each year. In setting the charges, consideration needs to be given to the sustainability of the utility in the long term along with an understanding of the local demographics and levels of service required.

From a financial perspective, there is no compelling argument for the privatisation of an LWU. LWU's need to achieve full cost recovery for their operation, maintenance and capital programs, while the private sector needs to make a profit for its shareholders. Changes to regulatory requirements makes full cost recovery very challenging. As has been demonstrated over the past three years, emergency and incident management are also required to be funded through water and sewer funds, as limited government support is made available to LWU's.

Many of the sewerage schemes (in particular) co-funded through the Country Towns Water Supply and Sewerage Program in the 1990's and early 2000's in Shoalhaven are now up for review. These reviews need to take into consideration new technology in order to achieve higher effluent quality outcomes, reduced emissions and circular economy considerations. In many cases state government (Public Works) designs of the earlier years do not enable simple augmentations to achieve these desired environmental outcomes.

While funds cannot be transferred generally between the Water/Sewer Funds and Council's General Fund, Shoalhaven Water has traditionally paid dividends to the General Fund of up to approximately \$3 million per year. The distribution of funds through dividends are subject to performance and

sustainability audits by DPE (Water) of Shoalhaven Water's practices/plans/systems in accordance with the *Regulatory and Assurance Framework for Local Water Utilities* (and previously the *Best Practice Management Guidelines*). These dividends are considered valuable to the General Fund during these tough economic times. Shoalhaven City Council adopted some years ago that Shoalhaven Water should strive to maximise the dividends from the Water and Sewer Funds. The fact that regular performance reviews are undertaken is one of the reasons LWU's are often regarded as the highest performing functions of a Council (particularly with asset management, project management and capital works planning) and these practices can "set the example" for other Council functional areas to adopt.

Privatisation is not the solution to under-investment in water and sewerage infrastructure. Under-investment is largely a condition of a community's ability to pay for expected levels of service. LWU's throughout the state experience their own unique operating conditions. Shoalhaven experiences all conditions from severe drought and fires to windstorms and east-coast lows causing flooding. Shoalhaven Water's customers are dispersed across 4,567 square kilometres in approximately 45 towns and villages. Our population more than trebles during peak holiday periods and we have a high growth permanent population.

We rely predominantly on water provided from the WaterNSW operated Tallowa Dam, through a Water Sharing Plan and agreed water release protocols. A Drought Management Plan and Demand Management Plan adopted by Council promote responsible use of water and restrictions during extended dry periods. Such environmentally responsible actions may be at risk through private ownership of an LWU, where profit is the primary driver.

(b) Reviewing governance and other legislation relating to the potential privatisation of local water utilities

Local Water Utilities are governed by councils empowered by the NSW Local Government Act 1993 and the NSW Water Management Act 2000.

The Minister for Water issues guidelines for managing the provision of water supply and sewerage services by councils under [Section 409\(6\)](#) of the Local Government Act. These guidelines were recently reviewed and approved effective from July 2022 in a [Regulatory and assurance framework](#).

Just like the larger metropolitan utilities, Shoalhaven Water operates in a complex web of governing legislation. Apart from their powers and duties under the above two Acts, LWU's also have additional regulatory responsibilities:

- **Public Health Act 2010** with regard to maintaining a Drinking Water Management System for safe drinking water.
- **Protection of the Environment Operations Act 1997** with regard to holding Environmental Protection Licences Pollution Incident Response Plans (PIRMP's).
- **Environmental Planning and Assessment Act 1979** with regard to determining approvals to construct water and sewerage infrastructure and ensure appropriate servicing plans for land.
- **Dams Safety Act 2015** – to ensure that any risks from dams owned by councils are managed to an acceptable level.
- **Work Health and Safety Act 2011** – to ensure the safety of water and sewerage workers.
- **Water Act 2007 (Commonwealth)** – with regard to national performance reporting requirements for water utilities.

These Acts all have supporting Regulations that we have not covered here for brevity.

Shoalhaven Water recommends increased attention be paid to a more coordinated, whole of government approach to its oversight and support for water and sewerage service provision in NSW. There are significant regulatory hurdles in water service provision. A streamlined, coordinated, strategic regulatory approach would be very welcome.

Importantly, privatised water utilities are permitted and enabled by the **NSW Water Industry Competition Act 2006**. The Act is regulated by the NSW Independent Pricing and Regulatory Tribunal and encourages private-sector investment by establishing a regime for third-party access to water infrastructure, and licence private sector water network operators and retail providers. The Act not only applies to the service areas of Sydney Water and Hunter Water, it operates across all of NSW. LWUs have the potential to be nominated as the 'Operator of Last Resort' where a private sector service provider fails.

(c) Any other related matters

All customers in Shoalhaven, and indeed nationally, deserve safe, reliable and affordable water and sewerage services. Through the annual National Performance Reporting, evidence shows Shoalhaven Water is a high performing LWU. It has strong community ties with customer service and safety at the forefront of everything we do. Shoalhaven is an environmentally sensitive area with pristine coastlines and aquaculture businesses throughout its waterways. We are cognisant of the sensitivity of these areas, and we have close ties with key stakeholders. Internet of Things is being utilised increasingly to monitor operational issues and provide early warnings of failures.

Shoalhaven Water has close affiliations with University of Wollongong and Sydney University as well as TAFE. We maintain a traineeship program of between 30 and 40 trainees in numerous disciplines to support local young people. We also support our local young indigenous communities through programs such as the Clontarf Foundation.

Shoalhaven Water also supports the local economy through its reclaimed water management scheme, which makes available 13 ML per day for irrigation of local dairy farm pasture, golf courses, public parks and playing fields. Much of this reclaimed water is a direct substitute for potable water usage. There is currently no charge in the Shoalhaven for reclaimed water.

Local government is best positioned to deliver these services in Shoalhaven and regional NSW, given the deep understanding of their local communities. Shoalhaven is typical of many, particularly coastal, LWU's in that there is significant diversity in climatic conditions, tourist visitation, spread of communities and demographics. These conditions require a balancing of considerations in the following areas.

1. **The relative cost of services.** Economies of scale are important to identify. Shoalhaven has 13 sewage treatment plants/schemes supporting generally smaller communities. In order to provide these essential services to Shoalhaven communities it is important to note that relative costs are based on externalities that are beyond the control of an LWU such as:
 - a. Relative remoteness – long distances between small populations, impacting aspects of travel times for operational staff.
 - b. Diseconomies with the capital and operating costs for very small water and sewerage assets per head of population.
 - c. Varying demand for water depending on climate, impacting on revenue for water usage. This can lead to a higher dependence on revenue from usage charges and in turn the perception that water conservation is 'bad for business'.

2. **A community’s ability to pay.** As mentioned above Shoalhaven has a diverse demographic. The economic profile for ability to pay metrics can be complicated in terms of servicing residential customers, non-residential, commercial and industrial developments.
3. **The level of service provided and the risks associated with the service.** Safe drinking water, resilient against climatic events, appropriate water security (water availability) and a safe, liveable environment. It is important to acknowledge that minimum standards are driven by a number of NSW government agencies, including DPE, NSW Health and NSW EPA. These agencies have a significant influence on minimum standards and therefore the costs of service provision. Good Dam Safety performance is also difficult to recognise and expensive for an LWU to address. A whole-of-government approach is required. Risk appetite should be developed after consultation with local communities rather than unilaterally imposed by the regulator. Significant cost burdens can accrue on an LWU due to a change in risk appetite from any regulator.

It is also notable that larger utilities like Shoalhaven Water receive the least proportion of capital subsidy for eligible projects under the Safe and Secure Water Program funding rules:

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%

Figure 1 - Safe and Secure Water Program funding bands

It is strongly believed that perverse consequences are realised with the above approach where a Local Water Utility is not considered on its merits (or indeed its identified risks) when it comes to economies of scale, as discussed above.

Further Consultation Required

There has been limited time to put a thorough submission together on all the issues supporting the inquiry. This submission is based on the views of Shoalhaven Water, Shoalhaven City Council’s water utility. Sufficient time was not available to receive formal support of this submission from the Council.

Shoalhaven Water encourages the government to put the customer and the community at the centre of a consultation process to discuss their water and sewerage service issues and seek their views on the service quality provided by their LWU. It is our view that most communities want to be empowered and supported to solve their problems locally. The question is if an external funding source and external technical support can be provided reliably, and an appropriate regulatory framework is in place, would privatising water service functions be necessary? There are numerous regulating agencies and regulations in water service provision, and significant issues with the lack of information and engagement with regional communities in water. A whole of government approach needs continued attention to relieve constraints on water service performance.

It is essential that the government consults with Aboriginal communities and local councils together on water service provision for local communities. The Aboriginal Communities Water and Sewerage Program is a 25-year program jointly funded by the NSW Government and the NSW Aboriginal Land Council to obtain full and thorough perspectives.

Concluding Comments

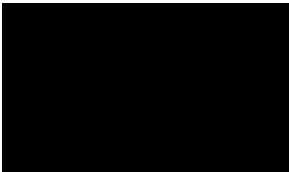
Shoalhaven Water provides a high-quality service to its community through the management of 13 sewerage schemes and four water treatment plants. LWU's need protection against privatisation similar to that recently adopted for Sydney Water and Hunter Water, with care taken not to inadvertently achieving perverse outcomes.

In saying this, the government needs to develop a new funding model to support Local Water Utilities through transformational change of the industry. 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.

It is important to generate a balance between capital and operational support in the new model.

Thank you for the opportunity to make this submission.

Yours sincerely



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