

**Submission
No 18**

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

Organisation: Goldenfields Water County Council

Date Received: 29 October 2023

27th October 2023

Joint Select Committee

Parliament of New South Wales
Macquarie Street
Sydney NSW 2000

Protecting Local Water Utilities from Privatisation

Thank you for the opportunity to make a submission on, Protecting Local Water Utilities from Privatisation.

Who we are

Goldenfields Water County Council (GWCC) is a NSW Local Government regulated water utility, serving the Riverina and South West Slopes region of NSW.

GWCC supplies water to customers within its area of operation (22,526km²), which covers or crosses the boundaries of ten (10) Local Government Areas (LGAs) of Bland, Coolamon, Junee, Temora, Narrandera, Carrathool, Lalchan, Cootamundra-Gundagai, Wagga and Hilltops Shires. Services provided to these areas are undertaken via 11,000 retail connections and additional bulk water supply services to Hilltops, Cootamundra-Gundagai and Riverina Water.

GWCC oversees the longest regional Local Water Utility (LWU) network of pressurised water supply mains in NSW in order to service the 46,000 people within its area of operation. GWCC's operational system consists of around 2,400km of pressurised water supply mains, 5 water treatment systems, 40 pump stations and 114 reservoirs with a replacement value at around \$450m.

GWCC has an annual turnover of around \$23m with a ten-year capital delivery program estimated at around \$130m.

County Councils

There are currently only four county councils within NSW. County councils are established under Chapter 12, Part 5 of the Local Government Act 1993 (LG Act). Relevantly, section 394 of the LG Act provides that the functions of a county council are set out in the proclamation establishing the county council, and that:

A council (General Purpose Council) may not undertake a function conferred on a county council whose area of operations includes the whole or any part of the council's area, subject to the regulations or a proclamation made for the purposes of this Part.'

Goldenfields Water County Council ('GWCC') was established by proclamation on and from 2 May 1997. Clause 4 of Schedule A of our proclamation provides that the functions of GWCC are 'the functions of a council for the provision, care, control and management of water supply works, services and facilities within its area of operations'.

Whilst County Councils are regulated under the LG Act, they are not subject to the issues of rate pegging and operate as full cost recovery.

Privatisation of Local Water Utilities

GWCC supports protections against privatisation, However, any new legislative requirements will need to ensure that there are no perverse consequences with outsourcing to the private sector for any specific services deemed necessary for additional support. It is acknowledged that Sydney Water and Hunter Water outsource a significant amount of their operations, and this will also be a critical consideration for them now that they have been afforded protective legislation.

The mechanisms to accommodate private operations within the market have been made available via the Water Industry Competition Act (WICA) and the competitive neutrality policies regulated through IPART. Competitive neutrality's aim to ensure that government businesses that compete with the private sector do not have a competitive advantage over other businesses solely due to their government ownership. In addition to this, the Local Government Code of Accounting, mentions that a category 1 operation (gross operating turnover over \$2 million) should seek to generate a return on capital. The code defines two scenarios for this:

1. A monopoly business, where a return seeks to cover costs and replacement of assets, or
2. Operating within a competitive market. Where it should employ an estimated return better than a return on an Australian government 10-year bond. That being around 4.846% in current rates. This would be applied to the annual depreciated rate of the assets and recovered as a fixed operational cost. That notwithstanding the requirement for including provision for tax equivalent regime to meet competitive neutrality principles.

Therefore, there is no compelling argument for privatisation, as the ability to enter the market and compete is already available. The issue is that the services provided in rural and regional locations are not viable in a majority of circumstances. Simply put, private operations are required to return a profit and are unable to absorb any risks or community service obligations that an LWU would perform, and/or value add to a community. History provides relevant examples of where the privatisation of essential services has had a negative impact on communities across the nation, i.e. when electricity and gas were removed from local government hands in the 1990's.

Current poorly performing LWUs, are often due to economy of scale or inappropriate cross subsidisation. Cross subsidisation is a direct result and impact of rate pegging within NSW for general purpose councils. Financial restrictions and/or additional imposts on LWU's, are likely to provide a negative impact on their levels of service for water and wastewater operations. County Councils do not have these risks or obligations; however, they do have the ability to provide community assistance and donations through section 356 of the LG Act.

LWU's with a low economy of scale are generally operating an essential service with limited options of recovering adequate funds or maintaining adequate resources, noting their remote and rural localities. It is essential that these services be adequately funded as a Community Service Obligation (CSO) under, or similarly to how the existing Australian Government's Financial Assistance Grants (FAG's) are implemented.



The previous three years of global issues has exacerbated the cost burden significantly, for both operational and capital delivery programs. As an example, energy costs represent around fifteen (15) percent of GWCC's Operational expenditure where only fifty (50) percent of that cost burden is related to usage. Network charges make up the current burden of an LWU's operational energy costs and are unable to be mitigated against unless the LWU becomes a generator.

In terms of capital delivery programs, LWU's seek to recover adequate funds for major capital projects over a thirty-year horizon via an adequate price path. The previous three (3) years of cost increases across the world have now resulted in all LWU's underestimating project costs by up to forty (40) percent of original budgeted value. This shortfall in capital delivery was simply unprecedented and will be the highest risk for the utility sector over the next five (5) to ten (10) years, as aging infrastructure continues to depreciate, without the ability or means for full cost recovery over a short term, and without significant impact on a communities cost of living.

Regardless of ownership of public assets, GWCC strongly believes that a failure to adequately address the gap in funding services provided in regional and rural localities via Community Service Obligations, then the existing shortfall in levels of service will remain. Therefore, identification of these gaps in remote, rural and some regional operations, should not form any basis or consideration of privatisation. It is simply an issue that requires addressing as a matter of priority, regardless of operational ownership. Moreover, there is an opportunity to revolutionise an intergovernmental (all three levels of government) way of funding critical infrastructure and its associated delivery of services that can only be addressed adequately through publicly ran and owned services.

Maintaining public ownership provides trust, provides caps to service cost obligations and reduces the risk of entering situations of Operators of Last Resort, as detailed under the WICA requirements. The strategic and regulatory framework required to manage critical infrastructure, ensures public health, environmental outcomes, and levels of service for communities. If these services were entirely in private hands, the difference would be substantial, as well as increasing transaction costs considerably.

Governance

Goldenfields Water County Council is a single service utility for water supply as detailed above. GWCC is restricted in seeking alternate opportunities to diversify its operations into sectors, due to its proclamation. However, private enterprise has the ability to invest and seek ventures in alternate operations without limitation. Ability for agile operations, would provide additional avenues for LWU's in seeking much needed increased revenue sources through specialist services across the state.

As detailed above, LWU's have safeguards in place to ensure adequate strategic planning, public health and environmental outcomes. These outcomes are regulated and reported on through the annual performance reporting indicators through 600 plus indicators and presented publicly. GWCC is also one of 86 water utilities within Australia that reports on 166 indicators through the National Performance Reporting Framework. Through the recent review of the NPR Indicators, GWCC believes it crucial for all LWU's to report through the Framework and not be limited to utilities with greater than 10,000 connections.

Goldenfields Water is a firm believer in maintaining water and sewer operations at a local government level and associated legislation. However, significant reform needs to occur to remove current barriers within its operations. The combination of the use of the Water Management Act (WMA) versus the LG Act, needs to be integrated for specialisation of water

and sewer supply functions. An example of such a barrier when compared to State Owned Corporations (SOCs), is the current difficulties LWU's face in penalising customers for water theft. Sydney and Hunter Water have the ability to enact appropriate penalties under the WMA, whereas LWU's cannot and during the recent drought scenarios, significant theft had occurred without repercussion.

In addition to this, county councils have been neglected through an historic approach of seeking efficiencies within amending state planning legislation. As such, there is currently no mechanism in the development assessment process that mandates the referral of development applications to NSW county councils for consultation and concurrence of development, where the proposed development may impact on the functions of a regions water supply.

The effect of this, is that development applications, and/or developments not requiring consent, are referred to county councils on a discretionary basis. This has and continues to result in sub-optimal outcomes and undermining the ability of the county councils to carry out their functions efficiently and effectively across a regional supply network.

County Councils are seeking to be recognised as a concurrent 'Approval Agency' within the State Environmental Planning Policy (Infrastructure)/(ISEPP) and the NSW Planning Portal in relation to the services detailed under their individual proclamations.

Concluding comments

As detailed above, there is no benefit in considering the privatisation or sell-off of public assets. Essential services and their associated assets should remain locally owned where trust and transparency can be maintained to deliver the social, cultural, economic and environmental needs of each community.

The water sector remains heavily regulated with limited opportunity to deliver improvements for assisting LWU's in providing adequate levels of service into the future. This will need to be accommodated through appropriate legislative reform, development of appropriate funding mechanisms for both operational and capital delivery needs and consideration of scale and capacity opportunities where they may be presented. As stated above these gaps do not provide relevance for the privatisation of LWU's, as the need for reform will be required under any provision.

The county council operating model is a proven and successful delivery model, and we support all opportunities that could be derived gaining greater agility in service delivery outcomes.

We would welcome any opportunity to further discuss or clarify any detail within this submission and to discuss any additional outcomes that may be presented from this Joint Select Committee.

Kind Regards



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