

**Submission
No 19**

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

Name: Mr Stephen Palmer

Date Received: 29 October 2023

Stephen Palmer Consulting

The Hon Stephen Lawrence MLC
Chair
Joint Select Committee on Protecting Local Water Utilities from Privatisation
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Sir,

In relation to the Committee's Terms of Reference, I pleased make the following submission.

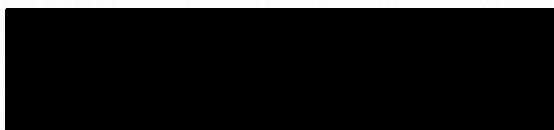
My name is Stephen Palmer, I am Director of Stephen Palmer Consulting, a one-man consultancy that I began in 2016 following a 36 year career in the NSW public sector. I am a Civil Engineer and worked in the delivery and management of water supply projects and programs in regional NSW between 1980 and 1983 as well as 2001 to 2015.

Since 2016, I have continued working with Local Water Utilities, mainly in western NSW, assisting in the delivery of their water supply and sewerage projects under NSW Government funding programs.

My professional interest has been and continues to be the safe, secure, cost effective, affordable and efficient water supply and sewerage services in regional New South Wales, in the hands of local water utilities.

Please accept my apologies for a somewhat unstructured submission, but I hope it addresses the Committee's Terms of Reference and is of assistance in the Committee's deliberations.

Yours sincerely,



Stephen Palmer
Director

29/10/2023

Submission – Stephen Palmer Consulting

In relation to the Terms of Reference:

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

The best protection for local water utilities and their assets is to look at overseas experience over the past 20 years. In Europe and the United Kingdom there was a large scale shift to privatisation of water utilities, through Public Private Partnerships (PPPs) and Privately Funded Infrastructure (PFIs). In recent years, and currently, there is now a strong and rapid swing back towards ownership by local government or local government owned corporations.

The reasons are many and varied, but include significant cost increases to the consumers and failure by the private companies to invest sufficiently in infrastructure upgrades. In the past few months in England, the head of Thames Water resigned as a consequence of high levels of sewage discharges and overflows to rivers and streams due mainly to inadequate infrastructure. In France, control of several urban water supplies are being returned to municipalities due to a range of shortcomings in the management and delivery of their water systems.

The New South Wales Government has investigated to potential for reform of Local Government and its undertakings. The Reform processes, which included forced amalgamations, cannot be described as having been a success case-study. The Armstrong-Gellatly inquiry into Local Water Utilities in the early-2000s was not implemented, though the Local Water Utilities themselves have been successful in developing a number of Joint Organisations and Regional Organisations.

In regional New South Wales, there are 2 Government owned organisations that on the surface could take over Local Water Utilities, these being WaterNSW and Essential Water, a business arm of Essential Energy. On the plus side, both of these organisations have a State-wide presence, outside of the retail urban water areas of Greater Sydney (Sydney Water) and Newcastle (Hunter Water). On the negative side, WaterNSW has no capacity or experience in retail urban water operations, and Essential Water only operates in Broken Hill, Menindee, Sunset Strip and Silverton.

A potential pathway for this type of transfer of ownership may be evident in the fact that under the Government's Safe and Secure Water Program, introduced in 2017, Government owned corporations became eligible for funding under the Program. This was a new provision in what had been subsidy programs for Local Water Utilities.

There is benefit in looking at and understanding the history of the NSW Government's partnership with local water utilities and the funding models that have been in place.

In the past there has been criticism from some quarters that local water utilities were not profitable. This is true in many cases. The primary objective of many local water utilities is to deliver a cost-effective and affordable service to its ratepaying consumers. Larger local water utilities may have the option to make a profit and pay their Council a "dividend", but smaller ones cannot pay their council a dividend without lifting prices, making their service less affordable. They price their services to cover costs and set funds aside for renewals etc.

The underlying objective of the Government's subsidy programs for Local Water Utilities, going back to at least the 1970s was to overcome the lack of economies of scale for local water utilities in NSW.

More recent pressures on the local water utilities sector include:

- Climate change, reducing stream flows and secure yield from local water utilities owned dams and yield from bore supplies;
- The introduction of Environmental flow requirements, impacting on water quantities that could be held in the dams;
- Changes in drinking water standards and Health Based Targets, admirable and necessary but costly to comply with.

Look at geography and population for a moment:

- The UK has an area approximately 39% of the size of NSW, yet has a population of 68 million;
- Thames Water, the largest UK water company serves 13 million people and has 101 water treatment plants;
- NSW local water utilities serve 1.8 million people and own over 400 water treatment plants;
- NSW towns and villages, once you move away from the coastal fringe are generally distant from one another. Long pipelines from a centralised water treatment plant are not feasible. No matter what ownership model is developed, there will always be over 400 water treatment plants, not to mention the sewage treatment plants.

Briefly the history of country town water supply and sewerage subsidy programs may be summarised as follows:

- In the 1980s the cost of water supply and sewerage projects was shared 50:50 between the NSW Government and the local water utility.
- In the mid-1990s a revised program was introduced whereby the NSW Government funded 50% of the "Backlog" component of projects. Backlog being defined as the portion of the project necessary to bring the infrastructure to the standards and volumetric demands as at 1996. Any portion of the proposed project above these levels was called "growth" and was to be funded by the local water utility from Developer Contributions;

- In about 2005, the Program was revised again to introduce the concept of large and small water utilities, based on annual turnover. Large utilities (greater than \$10M/annum turnover) received a 20% subsidy for their backlog works, while small utilities (less than \$10M/annum) received 50% subsidy for their backlog;
- In 2017, the current Safe and Secure Water Program rules were introduced.

From a private sector position, there have been entities in the past interested in taking over local water utility operations in specific areas, in return for the entity being able to set retail water prices and for the transfer of town water licences to the entity. Benefits to communities in terms of affordable water supplies were not apparent.

This is a complex and convoluted area, but to answer "*How local water utilities and their assets can be best protected against privatisation, forced amalgamations and sell offs*" is to better support local water utilities so they can continue to deliver safe, secure, efficient and affordable water and sewerage services to their communities.

These are critical public health services. In NSW the original Country Towns Water Supply Act was introduced in 1880 to address the impacts of the plague and water contamination from the discharge of untreated sewage to the waterways.

Local water utilities own over \$11 billion of assets, including dams, bores, river intakes, water treatment plants, sewage treatment plants, reservoirs, pipelines pumping stations and more. They employ professionals who know their individual systems and manage them to a high standard.

In 2017, a conference paper was presented at an OzWater conference. The subject was "Water in Public Hands". It didn't purport to have all the answers, but to act as a conversation starter, a conversation that is needed now more than ever.

The privatisation of water supply and sewerage services is very different to the privatisation of roads, tunnels, metro rail lines, light rail lines, ferries, buses, schools, or even hospitals.

In all of those, the public has the choice to use a publicly owned and funded road, transport link, school or hospital. That choice does not exist in a privatised urban water scenario.

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

The wording of this Term of Reference concerns me as it implies the privatisation is a foregone conclusion.

Irrespective, the following points need careful consideration when considering the impact on local communities:

- Local Water Utilities and their ratepayers would need financial compensation for the infrastructure that would be transferred to the private sector operator, or State Owned Corporation and any associated loans would need to be extinguished;
- Private sector operators would require a commercial return on its investment. This would only be achievable by increasing water and sewerage charges to consumers, or be granted significant funds from the NSW Government to underwrite any loans;
- The NSW Government would require a dividend from the State Owned Corporation to meet the cost to Government of the first point above.
- The impacts on local water utilities' other operations and the staffing of those operations if skilled staff are lost to the private sector/State Owned Corporation operators.

(c) Any related matters.

The position of Urban Water in regional NSW within the NSW Government Ministry and Government agencies needs to be re-assessed.

For too long, the water portfolio, especially the urban water portfolio had been tacked onto other Ministerial responsibilities and onto large and diverse departmental clusters.

Water supply and sewerage services are not natural resource management products. The extraction of water for urban use and the discharge of sewage waste are controlled by water resource policies and environmental policies, but these services are public health services.

Serious consideration is warranted in relation to where urban water and sewerage programs sit within Government.