

**AUSTRALIA'S URBAN WATER SECTOR  
INQUIRY BY THE PRODUCTIVITY COMMISSION**

**Submission by:**

**Wagga Wagga City Council  
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## **Table of Contents**

1.	INTRODUCTION.....	1
2.	GENERAL COMMENTS.....	2
	2.1 Alliances .....	2
	2.1 Infrastructure Australia & National Water Commission Reports .....	3
3.	SPECIFIC COMMENTS .....	4
	3.1 Chapter 6: Supply of Water, Wastewater & Stormwater Services .....	4
	3.2 Chapter 7: Pricing of Water & Wastewater .....	4
	3.3 Chapter 8: Non - price Demand Management .....	5
	3.4 Chapter 9: Achieving Affordability & Consumer Protection Objectives.....	6
	3.5 Chapter 11: Institution - Centred Reform .....	6
	3.6 Chapter 13: Reform in Regional Areas .....	7
4.	SUMMARY & PRINCIPAL RECOMMENDATIONS .....	9

## **1. INTRODUCTION**

Wagga Wagga City Council is grateful for the opportunity to follow up on our original submission (November 2010) with this response to the Commission's April 2011 Draft Report.

Council would like to take this opportunity to congratulate the Commission on an excellent report which has so comprehensively reviewed the urban water sector across Australia, addressed the need for reform and provided an excellent, well researched and sensible way forward.

As outlined in our November 2010 submission, Wagga Wagga is the largest inland city in New South Wales with a population of approximately 63,000 people and a current growth rate of 1.6%.

The continued growth and prosperity of the City is inexorably linked to the continued security of our water supply, the provision of efficient and cost effective services and the on-going need to maintain our assets.

Council suggests that the creation of an alliance (or similar structure), which creates an entity that combines the water supply and sewerage services, will allow Wagga Wagga to continue to grow and prosper. It is important, however, that any such structural and/or governance change can be demonstrated to deliver productivity gains and positive benefits to our community.

We note that the commission has recognised this impediment to the provision of an integrated water service (Page 323) and this is one of the matters we provide further comment on below.

We have limited our comments only to those areas where we have concerns and / or suggestions.

Areas not commented on have been determined by Council as agreed or of no relevance to Wagga Wagga or our area.

## **2. GENERAL COMMENTS**

### **2.1 Alliances**

As outlined above, Council is very happy with the general intent of the Commission's Draft Report.

Council is generally supportive of an alliance type arrangement which ensures that efficient arrangements will continue to apply to the delivery of water supply and sewerage services

Our November 2010 submission proposed the establishment of a Regional Alliance of those local water utilities in our area which share a mutual inter-relationship in water cycle management; potentially incorporating:

- Water Supply Services for those Councils where the water supply functions are currently provided by **Riverina Water and Goldenfields Water**
- Sewerage Service and Stormwater Service functions of Wagga Wagga City, and Lockhart, Urana, Cootamundra, Harden, Bland, Gundagai, Junee, Temora and Coolamon Shires.

Such an Alliance would serve a community of more than 110,000 people with an annual revenue base well in excess of \$60 million.

It would also enable delivery of these essential services in a totally integrated water cycle manner, and would:

- enhance revenue streams
- enhance capital expenditure
- protect or enhance jobs in our area
- enable the retention of skilled, specialist expertise
- provide a mechanism for appropriate pricing
- provide appropriate governance arrangements.

Council supports the Commission's three aggregation models for regional urban areas in NSW, namely:

- county councils
- regional water corporations
- regional organisations of councils / alliances.

However, we believe that these models could be expanded to include the potential for alliances of Councils (Local Government Owned Water Utilities (LWUs)) with County Councils.

Council acknowledges the advantages of alliances, particularly as clearly demonstrated by the Lower Macquarie Water Utilities Alliance

### **Recommendation**

That the Commission provide further commentary in Chapter 13 on the potential benefits of alliances of County Councils with the Local Government Councils they serve with water supply, including the clear benefits of aligning the water supply, sewerage and stormwater services to those communities; and:

that this model be strongly canvassed and supported in Draft Recommendation 13.1.

on the proviso that Council retains ownership of the sewerage business (and related assets) it currently administers.

### **2.1 Infrastructure Australia & National Water Commission Reports**

Council is aware of both the Infrastructure Australia (IA) Report, "Review of Regional Water Quality & Security" (as prepared by AECOM) and the National Water Commission Report, "Urban Water in Australia: Future Directions".

We have also noted the stinging criticism of both these reports; particularly from the LGSA and the NSW Water Directorate,

Council concurs with these criticisms to the extent that both Reports call for a total overhaul of Local Government owned Water Utilities in NSW and the creation of Water Boards, along the lines of those established in Victoria in the 1980's.

We understand that there has been substantial criticism of the IA Report which appears to display a lack of understanding of the water sector in NSW and the importance of the linkages of this sector to overall Council operations and to the community in general.

Council concurs with these criticisms and supports the more measured and pragmatic considerations and recommendations of the Productivity Commission Report.

### **3. SPECIFIC COMMENTS**

#### **3.1 Chapter 6: Supply of Water, Wastewater & Stormwater Services**

- Draft Recommendation 6.1 and certainty in our area.
  - i) Generally in NSW, all supply augmentation options are considered using an adaptive management approach.

This is consistent with the application of best practice management in NSW as administered by the NSW Office of Water.

- ii) Rural-urban trade should be freed up. Prior to the drought, trading in NSW was permitted and even encouraged. An example was the purchase and sale on the water market of Town Water by Albury City Council. Those were “temporary” sales but “permanent” purchases.

Further, given the cap on further extractions from the Murray-Darling system, those towns needing to increase their water entitlement are currently only able to do so by purchasing permanent High Security entitlements from the rural sector.

- iii) Reuse, particularly of water reclaimed from sewage treatment, has become almost impossible since the introduction in 2006 of the “Australian Guidelines for Water Recycling: Managing Health & Environmental Risks”. In NSW, Section 60 approval is required to implement re-use schemes and the application of the National Guidelines ensures that compliance is cost prohibitive, if possible of all.

The Guidelines are meant to ensure a risk management approach, but in implementation they tend towards total risk avoidance.

#### Recommendation:

That the constraining issues surrounding re-use as a result of the risk aversion approach of the Australian Guidelines for Water Recycling be an issue for serious review by the Commonwealth and State Governments.

- Draft Recommendation 6.2

Whilst agreeing with the general intent of this recommendation (that Australian, State and Territory Governments should not provide subsidies for supply augmentations), Council believes that consideration should be given to providing subsidies (perhaps long term, interest free loans) for upgrading assets in smaller, socially disadvantaged communities of regional Australia. Typically, these areas are experiencing negative population growth, and therefore, augmentation of supply is not the issue; replacement probably is.

#### **3.2 Chapter 7: Pricing of Water & Wastewater**

- Council does not support “scarcity pricing”. We believe that this will disadvantage and discriminate against the more vulnerable, socio-economically disadvantaged in our communities, will add unnecessary complexity and only serve to confuse communities.
- With respect to Developer Charges, all LWUs in NSW are required (as part of Best Practice compliance) to prepare transparent and dependable Developer Servicing Plans

(DSPs) for both water supply and sewerage with associated "Commercial Developer Charges".

The Plans must be prepared in accordance with the NSW Office of Water's "Developer Charges Guidelines for Water Supply, Sewerage & Stormwater, 2002".

- Draft Recommendation 7.3

Whilst Council generally supports this recommendation, the major issue for LWUs is the imposition of the 75:25 rule (75% of residential revenue from usage charges; 25% fixed "access" charges). For LWUs with 4,000 or fewer connected properties the rule is 50:50, i.e. 50% of residential revenue is to be obtained from usage charges).

Water utilities struggled with this rule during the drought and this has been further compounded with the very wet period since the drought. This has resulted in significantly reduced revenues for the past 10 - 12 years.

**Given the difficulty in accurately predicting these climatic events ahead of setting annual and 4 year budgets, it is suggested that the Commission specifically recommend a review of this rule in NSW.**

Fixed charges need to be realistic and reflect actual system costs, including maintenance, renewals and depreciation.

The generally poor state of assets in regional NSW and the need for renewals / replacements has not been assisted by the application of this rule.

### 3.3 Chapter 8: Non - price Demand Management

- Restrictions

In NSW, Drought Management and Demand Management are treated separately.

Preparation of both a Drought Management Plan and a Demand Management Plan is required under Best Practice compliance.

Restriction levels determined in the Drought Management Plan may not be used as demand management tools.

Restrictions can only be applied in the case of emergencies (e.g. pump station failure) or water shortages.

Recommendation

That the Commission recognise the value of the Best Practice Management approach administered by the NSW Office of Water (Urban Water Utilities branch) and recommend it to other jurisdictions.

- Draft Finding 8.3

Although there may be "evidence to suggest that many consumers would be willing to pay a higher water bill to avoid being subject to restrictions on their water use", this is not a prudent position for water utilities if water restrictions are properly applied i.e., in times of water shortage or emergencies.

It is more important to protect the water resource, particularly in regional, inland areas than it is to satisfy the "needs" of those who can afford to pay a higher price.

Demand driven economic theory should not be applicable to water supply given the general scarcity of this valuable, essential, resource; especially in inland areas.

### **3.4 Chapter 9: Achieving Affordability & Consumer Protection Objectives**

- Draft Finding 9.1

It should also be recognised that Australia is the world's highest per capita consumer of water; in the driest inhabited continent on earth.

Management of, and charging for, this "resource" should recognise this in setting demand management objectives and pricing.

- Draft Recommendation 9.1

Council agrees with the recommendation to review "concessions" subject to appropriate input from community stakeholders, particularly those representing the socio-economically disadvantaged sectors.

- Draft Recommendations 9.2 & 9.3

Agreed - subject to the proviso of community consultation and input to the development of the "consumer protection principles" proposed.

### **3.5 Chapter 11: Institution - Centred Reform**

- Draft Recommendation 11.2

Council supports the general concept of Charters for urban water utilities.

However, we believe that the general concept of performance requirements for utilities is already addressed to a large extent by the Best Practice Management processes already in place in NSW, especially the requirement for LWUs to develop agreed "Levels of Service" components in their best practice Strategic Business Plans, which are prepared in accordance with the NSW Office of Water's Guidelines.

- Draft Finding 11.4

The formation of "representative consumer groups" is supported, but a set of selection protocols and processes should be developed in association with key stakeholders, like the Local Government & Shires Association and the Water Directorate.

Funding for these groups should be provided by State Governments.

The Terms of Reference for such groups should be limited to consideration of pricing (fees and charges) and levels of service / charters applying in the area or within the Alliance groups.

- Draft Recommendation 11.6

An anomaly in NSW is that, whereas environmental non-compliances are freely available on the DECCW (EPA) website, water quality non-compliances are not.

This should be addressed and the non-compliances which may impact on a community should be published and / or freely available online.

- Information Request (Page L111)

Council concurs with the suggestion that appeals regarding regulatory; environmental and health regulation decisions would be best managed by the Australian Competition Tribunal.

- Draft Recommendation 11.8

Council supports the lifting of bans on trade between regional water utilities.

Concurrent with this, a full review of current Town Water entitlements in regional NSW should be undertaken by the NSW Commissioner of Water with the aim of establishing reasonable entitlements and the removal of inequities resulting from historical allocations, where some towns have restricted entitlements and others have unnecessarily excessive entitlements.

### **3.6 Chapter 13: Reform in Regional Areas**

Council generally concurs with all the Draft Recommendations contained in this Chapter, as outlined in Section 2 above.

#### **Additional, Specific Comments**

- Draft Recommendation 13.1

Council agrees with the recommendation outlined above regarding alliances of Councils and County Councils. Council would appreciate the Commission's support for this recommendation.

We are aware of and encouraged by the initiatives developed by the Lower Macquarie Water Utilities Alliance (8 LWUs) and, more recently, by CENTROC (16 LWUs).

We are also aware of Alliances being developed along the same lines by the Upper Hunter Councils (3 LWUs) and Noroc (8 LWUs).

If an Alliance in our region could be developed, as recommended, this would involve 12 LWUs, bringing the total "active" alliances in NSW to 47 LWUs or nearly 50% of all regional LWUs in the State.

Five regional alliances representing nearly 50% of the State would be a significant step towards "aggregation of small water and wastewater utilities in regional areas in NSW".

- Information Request (Page LVI)

Restrictions on rate increases in NSW only apply to the General Funds of Councils. These are no rate pegging requirements on water supply and sewerage.

- Draft Recommendation 13.3

Council strongly supports the recommendation that the NSW State Government "should subsidise the provision of water supply and wastewater services in regional areas where it is uneconomic for the utility to provide these services safely and efficiently".

Council also believes that subsidies should apply to these areas for renewals and replacements of assets where necessary, (as discussed above).

- Draft Recommendation 13.5

Council understands that "compliance with the health critical elements of the ADWG" are being mandated by the NSW Government.

Preparation of a Water Quality Management Plan, we understand, will also become a requirement of Best Practice in the State in 2012.

- Information Request (Page LVIII)

As discussed above, Council strongly believes that there is "a case for integrating water supply and wastewater services in regional areas where they are currently provided separately".

#### **4. SUMMARY & PRINCIPAL RECOMMENDATIONS**

As noted above, Council is very supportive of most of the Commission's findings and recommendations and is encouraged by the support for alliances of NSW, government owned water utilities.

Our responses, suggestions and key recommendations are summarised below:

- i) We would like the Commission to provide further commentary on and support for the alliance of county councils and local government owned water utilities in NSW because of the clear benefits that will be derived by the alliance of water supply, sewerage and stormwater services.

- ii) We support the freeing up of rural-urban water trade and the lifting of bans on trade between regional water utilities.

Council also believes that it would be appropriate to review all Town Water Entitlements in NSW.

- iii) We believe that there is a need to fully overhaul the Australian Guidelines for Water Recycling to make it easier and more cost efficient to introduce reuse and recycling initiatives in regional NSW; whilst still maintaining community acceptable standards of public health protection.
- iv) Council believes that consideration should be given to providing subsidies (perhaps long term, interest free loans) for upgrading assets in smaller, socially disadvantaged communities in regional Australia.
- v) Council does not support "scarcity pricing" because it will potentially disadvantage and discriminate against the more vulnerable groups and individuals in our communities and add unnecessary complexity.
- vi) Developer Charges in regional NSW are required under Best Practice Management. Each LWU is required to prepare transparent and dependable Developer Servicing Plans for both water supply and sewerage.
- vii) Council recommends that the Commission support a review of the 75:25 pricing rule for regional LWUs in NSW (50:50 rule for LWUs with 4,000 or less connected properties).
- viii) Council recommends that the Commission recognise and endorse the value of the Best Practice Management approach to water restrictions in NSW, whereby restrictions specified in a LWUs Drought Management Plan can only be applied in periods of water shortage or emergencies.
- ix) Council agrees with the Commissions' recommendation to review "concessions", subject to appropriate input from community stakeholders.
- x) Council supports the proposal for development of Charters for urban water utilities and would refer the Commission to the "Levels of Service" components of best practice Strategic Business Plans applying in regional NSW.
- xi) We support the formation of representative consumer groups subject to the development of appropriate selection protocols, processes and Terms of Reference; with funding of such groups provided by State Governments.
- xii) Council supports the publication of all environmental and water quality non-compliances.

- xiii) Council concurs with the suggestion that appeals relating to regulatory environmental and health appeals would be best managed by the Australian Competition Tribunal.
- xiv) Council recommends that restrictions on rate increases in NSW only apply to the General Funds of Councils. There are no rate pegging requirements on water supply and sewerage
- xv) Council strongly supports the recommendation that the NSW State Government should subsidise the provision of water supply and wastewater services in regional areas, where it is uneconomic for the utility to provide these services; as well as similar subsidies for renewal and replacement of assets

As per (i) above, Council strongly believes that there is a case for integrating water supply and wastewater services in regional areas.

We look forward to the opportunity of further discussions on these matters at the Canberra workshop on 6 June 2011.

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Mayor

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Wagga Wagga City Council