



2007 State Election Country Towns Water Supply and Sewerage Program Policy Platform

Executive Summary:

The Associations' State Election Water Policy Platform seeks commitment from the NSW Government regarding the future of the Country Towns Water Supply and Sewerage Program.

Background:

The Country Towns Water Supply and Sewerage Program (CTWSSP) is a long standing State Government program which supports councils in regional and rural NSW in their provision of water supply and sewerage services. NSW Local Government, through local water utilities, provides water supply and sewerage services to over 1.7 million people - 30% of the State's population.

The current Country Towns Water Supply and Sewerage Program commenced in 1994, around which time the State Government agreed to fund the program at the rate of \$85 million per year for 10 years to overcome backlog problems. For their part, councils agreed to fund works for growth and implement nominated reforms. The CTWSSP was converted to a backlog program in 1996, meaning it would provide subsidy for works required to satisfy or meet 1996 standards or loads.

The NSW Government undertook a review of the CTWSSP in 2003/04 without consulting Local Government. The review resulted in key changes, including:

- Grants were reduced from 50% to 20% of backlog costs for councils with a turnover of more than \$10 million per annum in their combined water and sewerage account, or \$5 million per annum where they only provide one service;
- The maximum grant funding for projects listed under the Small Towns Policy of the program was reduced from 67% to 50%;
- A prioritisation committee of officers from nominated government departments was appointed to assign a priority ranking (1 to 10) to all projects based on security of supply, public health and environmental impact considerations. Funding for new works would be provided each year to projects in order of ranking;
- Councils, in their capacity as local water utilities (LWUs), would have to comply with the *Best-Practice Management of Water Supply and Sewerage Guidelines*, May 2004 issued by the Department of Energy, Utilities and Sustainability (DEUS).

The LGSA and Water Directorate commissioned a review of the program in 2005 which examined Government allocations to the CTWSSP since 1994-95 and calculated allowances for cost escalation. The paper identified an overall shortfall of NSW Government funding to the CTWSSP, and found that there was a residual commitment of Government funding to the program of \$439 million.

The NSW Government's current cap of \$915 million is fully allocated. While the NSW Government states that \$712 million has been allocated to projects, it is understood that the remainder of the cap has already been committed and is unavailable to the projects currently on the priority waiting list.

202 projects remain on the priority list awaiting subsidy, and the NSW Auditor-General has confirmed that around 90% of these will not receive funding under the current cap.¹ Without a further commitment from the NSW Government, more than 180 critical water supply and sewerage projects will remain unfunded.

The prioritisation committee met in early 2006 to assess project rankings and consider even more projects to be added to the queue. However, given that the current cap is fully allocated and there has been no commitment from the NSW Government to guarantee the future of the program, councils are unsure whether their projects will receive any funding at all.

¹ NSW Auditor-General, 2006. *Auditor-General's Report to Parliament 2006*, Volume 5, p.145.

Current Position:*NSW Opposition*

- The NSW Opposition has committed \$100 million per year to the CTWSSP, with a further commitment to an open and transparent funding allocation process.

NSW Government

- The NSW Government has committed \$70 million to the Program in 2006-07, however these funds are taken from the program's current cap and do not represent an additional commitment to the CTWSSP.
- Government publications² indicate that the Government may not provide further funding for the CTWSSP and in effect discontinue the current CTWSSP. In particular, the State Infrastructure Strategy states that over the next four years the NSW Government 'will be contributing \$221 million to assist LWUs upgrade water and sewerage schemes in rural areas as part of the County Towns Water Supply and Sewerage Program', and in the following six years 'assistance towards improving water and sewerage schemes will be provided'. The extent to which this represents new funds or is simply the 'unallocated' portion of the existing cap is unclear. The nature of the 'assistance' to be provided in future years is also unclear.

Comment:

The uncertainty surrounding the future of the program has impacted councils' ability to plan for and deliver necessary works to ensure an appropriate and acceptable standard of water supply and sewerage for their communities. Many councils cannot afford to proceed with backlog projects without the anticipated subsidy from the CTWSSP, particularly where they have a limited rate base to draw from. Trying to finance the projects without subsidy would mean greater costs for the local community and significant delays until sufficient funds can be raised to commence the work.

The lack of certainty in funding has also resulted in an inability for some councils to fully meet their requirements for Load Reductions Agreements under their Load Based Licensing agreements and an inability to deliver works required under Pollution Reduction Programs. Councils have been advised that in these circumstances they are required to repay any up front financial benefits that they may have gained through Load Reduction Agreements.

A further complicating factor is that councils cannot commence with their backlog projects while they are waiting in the queue without forfeiting the potential for a subsidy.

Despite the reduction in subsidy amounts, the increased conditions and obligations for Local Government, and the continued uncertainty of the CTWSSP, local water utilities have met their obligation to introduce best-practice management. Compliance at June 2005 for water supply was 58% for business and financial planning, 58% for pricing, 92% for performance reporting, 49% for water conservation, 51% for drought management. 27% of local water utilities have complied with all the required criteria and 28% have at least commenced an Integrated Water Cycle Management (IWCM) strategy.³

These achievements highlight the extent to which local water utilities have made a significant contribution to water reform over recent years. It should be noted that, despite this contribution to National Competition Principles (NCP) outcomes in NSW, Local Government does not receive a share of the State Government's Commonwealth incentive payments for complying with NCP obligations. By comparison, Local Government in Western Australia, Victoria and Queensland receive 4%, 9% and almost 20% each from their respective State governments.⁴

Councils across NSW are facing major investments in water and sewerage infrastructure to protect public health, achieve sustainable environmental outcomes and meet community needs. This includes ensuring a secure water supply during the most severe drought in recent history.

Recommendation:

That the Government, Opposition and other candidates standing for election support and commit to the continuation of the Country Towns Water and Sewerage Program by committing \$100 million per year for ten years in order to ensure that rural and regional citizens have access to adequate water supply and sewerage services. (Projected cost: \$100 million per year for ten years).

² NSW Government, 2006. *State Plan*; NSW Government *State Infrastructure Strategy 2006-07 to 2015-16*, p.45; NSW Government, 2006. *Premier's Economic and Financial Statement 23 February 2006*, p.21

³ DEUS, 2006. *2004/05 NSW Water Supply and Sewerage Performance Monitoring Report*, p.13.

⁴ LGI, 2006. *Are Councils Sustainable? Final Report: Findings and Recommendations*, p.65.