



## **Review of the Country Towns Water Supply and Sewerage Program**

### **The Need to Restore Funding**

#### **The Local Government and Shires Associations of NSW and the Water Directorate position statement:**

The Country Towns Water Supply and Sewerage (CTWSS) Program is a long standing Government Program which supports Councils in country NSW in their provision of water supply and sewerage services.

#### **Implementation of 1994-96 Changes**

The State Government negotiated major changes in policy for the CTWSS Program with country councils in 1994:

- Government agreed to fund the program at the rate of \$85 million (1994 dollars) per year for 10 years to overcome backlog problems; and
- Councils agreed to fund works for growth and implement nominated reforms.

The gain for councils was a commitment of increased and dependable program funding for 10 years. The gains for government were:

- An end date for program funding;
- Councils' acceptance of responsibility for fully funding works for growth, which would relieve Government of a funding liability of several hundred million dollars; and
- Improved planning and service delivery by councils.

The present government reviewed these proposed changes and announced they would be implemented in full in January 1996.

Councils have met their side of the agreement.

Government has never met its commitment to fund the program at \$85m (1994 \$) per annum. Annual expenditure for the 10 years from 1994/95 to 2003/04 has averaged \$52.5m (1994 \$).

#### **2004/05 Changes**

The Minister commissioned a review of the program in 2003. Local Government was excluded from the review process.

In 2004 after completion of the review, the Minister announced significant changes to the Program which included, for projects that were not already subject to a construction subsidy agreement:

- Grants would be reduced from 50% to 20% of backlog costs for Councils with a turnover of more than \$10 million pa in their combined water and sewerage account or \$5 million pa where they only provide one service;
- Grants for unsewered towns would be reduced from 75% to 50% and the maximum subsidy capped at \$15,000 / tenement;
- The threshold typical residential bill was increased from \$253 to \$350;
- An independent committee of officers from nominated government departments was initially appointed to assign a priority ranking (1 to 10) to all projects based on security of supply, public health and environmental impact considerations. Available funding for new works would be provided each year to the highest ranked projects; and
- Councils would have to comply with the Best Practice Management of Water and Sewerage Guidelines, May 2004 issued by DEUS.

It would appear that the review's focus was on reduction of the NSW Government's financial commitment to the Program.

Initial prioritisation of projects on the waiting list has been completed and councils with high priority projects advised that that they will be eligible for a subsidy under the new conditions.

### **Funding Situation**

In a May 2005 budget media release the Minister announced that total approved Program funding was \$908 million and that "total funds of \$67.2 million would be available in 2005/06, including \$32.2 million in new funds" to subsidise almost 40 new projects as well as assisting 100 works in progress. This amount is still less than the \$85 million per year in 1994 dollars.

It is highly likely that all currently approved funds are now fully committed.

This funding limitation is apparently based on the position adopted by Treasury that escalation in construction costs should not be progressively allowed on the unspent proportion of the backlog program. At that time actual costs due to inflation were to be adjusted at the end of the program rather than estimated at the beginning. As government records will show, the preliminary estimate for this program of works (\$1,700 million with an \$850 million subsidy) was clearly estimated in 1994 dollars. To date, increased costs due to inflation have not been taken into consideration.

In response to the overwhelming concerns of the affected water utilities the LGSA and the Water Directorate commissioned Peter Mackenzie in June 2005 to prepare a strategy paper that outlines the urgent need for government to commit to ongoing financial support to the non-growth component of the CTWSSP.

This report is attached. It draws on data from the Water Directorate's CTWSSP survey that was undertaken in April 2005. The survey was completed by the majority of local water utilities in regional NSW.

The paper analysed government allocations to the program since 1994/95 allowing for escalation in construction costs. It concluded that there should be a residual commitment of Government funds of \$439 million after allowing for the 2005/06 allocation and before any allowance is made for any justified increase in overall Program budget.

This contrasts with Government's apparent estimate of \$190 million residual commitment that can be derived by deducting allocations to date from the Minister's figure of \$908 million for the current overall program budget.

## **Effect of Funding Cut**

If the Government's figure is not reversed some 200 projects on the priority list would be denied financial assistance. These projects include the provision of sewerage to over 60 small towns and villages that rely on septic tank systems at present. Councils have been planning these projects for many years with rating structures that involve increases in rates in anticipation of subsidy funding. In many cases the local communities could not afford to proceed without the anticipated substantial government assistance.

## **More Difficult Operating Environment**

The State Government has introduced a much more stringent regulatory environment to improve the health of the State's streams and waterways. This is adding to Councils' costs.

There are a number of water utilities that will now not meet the terms of their Pollution Reduction Programs that are mandated as conditions of Environmental Protection Licences. In a few cases these Load Based fees are substantial. Other water utilities that have entered into voluntary Load Reduction Agreements with the Department of Environment and Conservation may have to repay upfront fee savings and pay penalty interest. In the future councils may be reluctant to enter into these Agreements on the basis that there is no certainty of funding to allow works to proceed in the required time frame.

Some Councils will have significant difficulties in meeting the 2004 Australian Drinking Water Guidelines.

Councils may also be reluctant to actively pursue compliance with the Department's Best Practice Management of Water Supply and Sewerage Guidelines, on the basis of some significant upfront strategic planning costs and an inability to finance necessary works.

Country NSW is in severe drought and CSIRO is predicting that there is a strong likelihood that more severe droughts could occur over the next 25 years. Many Councils are now facing major investments in water supply headworks to deal with this situation.

The LGSA and the Water Directorate considers it is a very inappropriate time for Government to reduce its annual allocations and overall commitment to the CTWSS Program.

## **Practice Elsewhere**

The Government's decisions to reduce funding levels for individual projects and to deny funding to a large number of backlog projects are inconsistent with its policy developed by IPART for Sydney Water's backlog sewerage projects. An effective 75% subsidy is provided to residents of small communities on the outskirts of Sydney and Wollongong.

It is also inconsistent with policies for continued support of country town services being applied in other Australian States and overseas.

## **Reasons for Financial Support**

Two arguments have been used in all cases to justify this financial support:

- **Beneficiaries should share costs**

The State gains significant benefits from upgrading country town water and sewerage services. These include environmental improvements, reduction in public health risks and facilitation of regional development. The State should therefore contribute towards the cost of upgrading.

- **Social equity**

Safe water supply and sewerage services are essential for modern urban living and should be available at prices that are equitable and affordable across all sections of the community. Costs of such services are very high for country towns because they cannot achieve the economies of scale possible in large cities. Financial support must be provided to smaller communities to achieve affordability.

Both of these arguments apply to country NSW.

## **Conclusion**

In the light of this review, the LGSA and the Water Directorate seek:

- A commitment from Government that it will reassess residual funds available to the Program after making realistic allowances for cost escalation from 1994;
- An increase in annual allocations to more closely match the original agreement between Government and councils of \$85 million per annum (in 1994 dollars);
- A return to a more consultative approach to administration of the Program including a joint review of the effect of the reduction in grants to individual projects introduced in 2004. This review would give particular attention to the level of subsidy provided for new small town sewerage schemes; and
- An increase in funding to assist councils comply with changes to legislation and application of more stringent regulatory requirements (eg. load based licensing, 2004 Australian Drinking Water Guidelines, Water Management Act 2000).