SUBMISSION

10 April 2024

Committee Secretary
House of Representatives Standing
Committee on Regional Development
Infrastructure and Transport
PO BOX 6021
Parliament House
Canberra ACT 2600

Via Email: rdit.reps@aph.gov.au

Dear Sir/Madam

RE: Inquiry into the Financial Sustainability and Funding of Local Government

The Queensland Water Directorate (***qldwater***) is the central advisory and advocacy body, working with our members to provide safe, secure and sustainable urban water to Queensland communities. In providing these essential services, the urban water sector owns and operates sewer lines, water and wastewater treatment plants, pumping stations, reservoirs, and a range of other critical water technologies/infrastructure.

There are 370 water supply schemes and 265 sewage schemes across Queensland. Our members currently service 1,916,519 sewerage connections and 2,117,663 drinking water connections (data from ***qldwater's*** Statewide Water Information System). These numbers are set to substantially increase with the current and projected population growth.

The Queensland sector is comprised of 75 service providers, directly employing nearly 7,000 people. Of the 75 publicly owned water service providers, 66 are local councils outside of SEQ.

qldwater members include all 69 council water service providers, the council owned statutory authorities in south-east Queensland and the two state-government owned corporations. ***qldwater*** provides this submission without prejudice to any submissions from our members or other urban water providers.

Inquiry Terms of Reference

qldwater understands that the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport will inquire into and report on local government matters, with a particular focus on:

- The financial sustainability and funding of local government
- The changing infrastructure and service delivery obligations of local government
- Any structural impediments to security for local government workers and infrastructure and service delivery

- Trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices
- The role of the Australian Government in addressing issues raised in relation to the above
- Other relevant issues.

This submission concentrates on the provision of urban water services by Queensland's local governments who represent the *provider of last resort* for these critical services.

The Role of the Urban Water Sector

The role and functionality of urban water utilities has evolved, commencing with (safe) water supply, and then the provision of sewerage, drainage, environmental protection and, more recently, water security and reliability efforts.

Increasing pressures from climate change, population growth, urban densification and urban sprawl require water utilities and water service providers to adapt and innovate, to maintain service delivery standards despite increasing costs. These pressures are contributing to a variety of challenges including water security and reliability concerns which, if not managed, will negatively impact community liveability, environmental flows and biodiversity, as well as economic prosperity.

The volume and complexity of regulation impacting the urban water sector is increasing and there are commensurate costs for compliance.

Local Governments – Urban Water Providers

Councils deliver five essential services to the local community: roads, water, wastewater/sewerage, parks and open spaces, and waste collection. Such services impact on the liveability of an area. Many Councils deliver these services without an ability to recover their revenue from their rate payers. They are often a *provider of last resort* of services to their communities and additionally have legacy assets to maintain. They do so with limited recurrent financial resources as they are typically dependent on government grants. This is particularly true for far western, remote and Indigenous local governments[1].

Outside SEQ, all local governments provide urban water services to their communities. The smallest urban water network provider has only 140 connections.

According to the Queensland Audit Office, in 2021-22, only 35 councils generated an operating surplus. Although this is consistent with the previous year, the sector's operating results were favourably impacted by receiving a large portion of one of its grants in advance. In the absence of this advance grant funding, only 28 councils would have generated an operating surplus in 2021–22. As of 30 June 2022, 46 councils (2020–21: 45 councils) are still at either a moderate or a high risk of not being financially sustainable[2].

[1] Queensland Audit Office. Managing the Sustainability of Local Government Services. Report 2. 2019-2020.
[2] Queensland Audit Office. Local Government 2022. Report No. 15. 2022-2023.

Population Growth

Queensland's population is set to grow from the current 5.4 million to between 6.4 and 8.27 million by 2046[3]. Brisbane is projected to remain the most populous LGA in Queensland, increasing from 1.26 million persons in 2021 to between 1.46 million and 1.76 million persons by 2046. The Gold Coast is expected to remain the LGA with the second-largest population in 2046 (increasing from 634,000 persons to between 849,000 and 1,130,000 persons by 2046), followed by Moreton Bay, Sunshine Coast, Logan, Ipswich and Townsville. Of Queensland's top 10 LGAs by population size in 2046, eight are in Southeast Queensland (SEQ). The remaining two LGAs, Townsville and Cairns, are in regional Queensland.

The recent Shaping SEQ 2023 Update[4] is the Queensland Government's plan to shape the future growth of SEQ, encompassing the 12 local government areas of Brisbane, Gold Coast, Ipswich, Lockyer Valley, Logan, Moreton Bay, Noosa, Redland, Scenic Rim, Somerset, Sunshine Coast and Toowoomba (urban extent).

The draft Shaping SEQ 2023 Update sets the framework for responding to the growing and changing region and is based on a data-driven planning approach. It aims to provide better housing choice by focusing on density and diversity in housing types. This includes the types of development sought.

Proposed infill developments and other urban building to manage the growing population will increase pressure on existing assets such as in-ground sewers. The urban water sector is already facing an 'Infrastructure Cliff'[5] across many of its assets, and it is likely the increased loads and external levels of disturbance will shorten expected lifespans even further. This must also be a consideration in infrastructure funding – it is not simply about building new, but upgrading and maintaining what is already there to meet the increased capacity needed; and this is costly.

These costs are further compounded by inconsistent and haphazard planning and Code approaches to building over sewers which has led to damage of existing infrastructure and an inability of the urban water sector to effectively access its own infrastructure in some cases.

In Queensland, urban development is also experiencing a period of challenge impacted by:

- Stronger than anticipated return of net overseas migration following the reopening of Australian borders in early 2022, where inflation and displaced persons affected by disasters are putting greater pressure on rental demands.
- Strong growth in internal migration to Queensland, especially amongst retirees moving to coastal communities (Figure 1).

[3] Queensland Treasury – Queensland Government Statisticians Office. Population Projections.
[4] See https://shapingseq.statedevelopment.qld.gov.au/
[5] See reports, Infrastructure Cliff: Queensland Ageing Water and Sewage Assets; and Cost Implications for In-Ground Assets. https://qldwater.com.au/qwrap_research

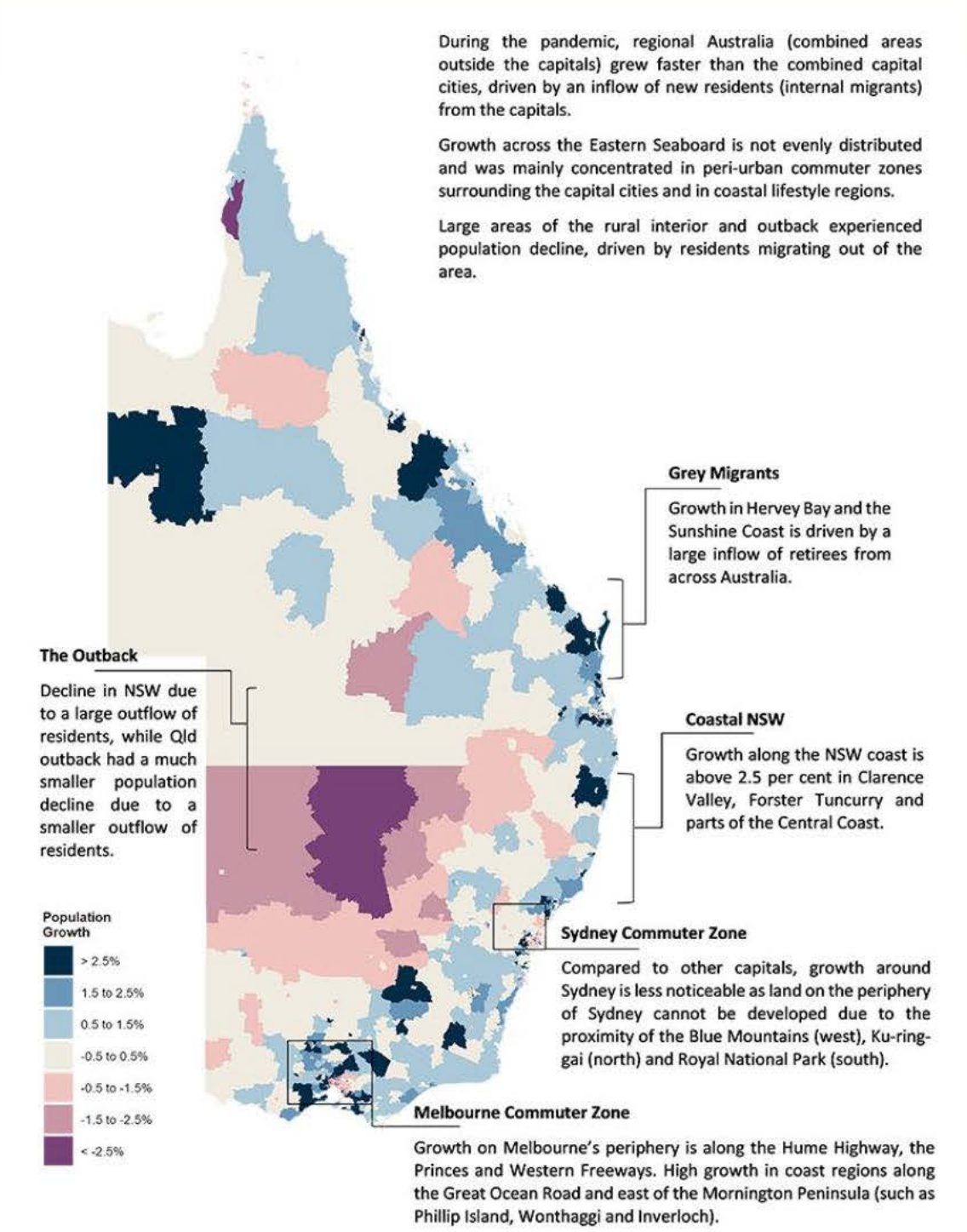

Figure 1. Population growth on the Eastern Seaboard by Statistical Area Level 2, average annual growth from 2018-19 to 2021-22[6]

[6] https://population.gov.au/data-and-forecasts/key-data-releases/regional-population-2021-22

- Development cost pressures with the national construction price index peaking at 11.9% over 12 months to December 2022 due to factors including inflation, materials supply constraints and skilled labour shortages.
- Increased borrowing cost with the sharpest cash rate increases observed from March 2020.
- A downturn in national property listings, which is fuelled by the uncertainty about further interest rate hikes, consequently, causing vendors to keep dwelling and lot inventories at below-average levels to gain some negotiating leverage.

The Queensland Government has tools to respond to these pressures and influence how Infrastructure Charges are collected to recover the costs of growth through investments in trunk (shared community) infrastructure. These tools are used to encourage growth and include the imposition of a "Maximum Adopted Charge" (MAC) that caps the amount of infrastructure charges that can be collected by utilities and local governments and the declaration of "Priority Development Areas" (PDAs) in which the State collects infrastructure charges and allocates them to new assets needed to support growth.

The Maximum Adopted Charge essentially runs counter to the National Water Initiative (NWI) principles of full cost recovery for urban water services by capping investment by developers into trunk infrastructure. These costs are shifted onto future water users\ratepayers and the developer removes profit from the system which, if the NWI principles were to be followed would have been invested in the trunk infrastructure capacity of the water services collection, distribution, and treatment assets.

Councils and utilities as water and sewerage trunk infrastructure providers, play a key role in supporting growth and essential services in Queensland. Their objective is to continue to plan for efficient and prudent expenditure that supports this growth in a sustainable manner and allowing for appropriate cost recovery. However, the States tools introduce market failures that prevent full cost recovery.

Since its inception, the MAC has not increased in line with inflation and thus a widening gap between funding and the costs of investment has evolved for Councils and Utilities. This is an example of State Government policy priorities inhibiting cost recovery for water and sewerage infrastructure. Another example occurs when PDAs are declared by the Queensland Government. In this case, the State collects infrastructure charges and does not allow funding of existing trunk infrastructure within the precinct. This means that council and utility service providers do not recover budgeted charges for already-installed lead trunk infrastructure and further reduces cost recovery. The legislation governing PDA's is also in direct conflict with the NWI principles.

Both of these mechanisms amount to cost shifting to benefit the State or Developers to encourage growth at the expense of water and sewerage customers but are largely unnoticed as water services costs gradually increase over time. Any shortfall in growth driven investment funding (growth investment expenditure less funding received through the MAC) can only be recovered from existing and future community customers through higher utility charges resulting in a cross-subsidy of development costs.

With the ongoing cost of living crisis and increasing interstate and overseas migration, there are complex factors to consider in any method to increase funding for development, however, the NPI

principle of *full cost recovery* should be adhered to, and the cross-subsidies at least made transparent. The water sectors pricing principles should support cost reflectivity, equity and sustainability, and transparency concerning the cross-subsidies surrounding Queensland infrastructure charge would help to ensure that costs are correctly apportioned and better reflect the costs of delivering growth infrastructure.

Other Considerations – Climate Impacts on Costs

Climate – 90 percent of natural disasters are water-related, while the remaining ten percent will also have an impact on the hydrological cycle. For example, bush fires impact water quality through the generation of soot and ash, use of firefighting chemicals, and degradation of the catchment. There are numerous critical SEQ water assets that are located within at-risk bushfire areas.

Modelling indicates a more variable climate future. For example, SEQ will experience more heavy rain events (as seen in 2022) as well as prolonged drought periods, and significant storms (including cyclones) will continue to track south along Queensland's coast. Opportunities to capture and utilise these high-rainfall periods must be investigated and funded; as must mitigation strategies for the damage they cause to critical water infrastructure.

Both new and existing infrastructure must now account for climate mitigation and climate adaptation. A recent position paper from the Queensland Competition Authority (QCA) and the associated submissions[7], highlighted the complexity of costing for climate adaptation, particularly for regulated businesses.

Funding Urban Water Services

Since the release of the Renewed National Water Initiative (NWI) report and findings in 2020, the situation for smaller (regional and remote) urban water service providers has deteriorated. Providers of water and sewerage services experience challenges posed by the remote and dispersed nature of their communities, the small scale of most of their water and sewerage schemes, limited rates base and limited borrowing capacity. This is coupled with higher service delivery and materials costs, low per-capita incomes and an inability for utilities to charge the full cost of providing urban water services. At the same time utilities are faced with increasing expectations about service quality and an increasingly rigorous regulatory regime and water quality and environmental standards.

A recent report by the Queensland Audit Office has highlighted that 48 of Queensland's 77 councils are financially unsustainable, dominated by regional and remote councils[8]. The report comments:

> *Dependency on grants is unavoidable for the sector. This is because some councils, due to their remoteness and low population, cannot generate enough income to cover their costs*

Chronic underinvestment in asset renewals amongst this cohort has been exacerbated by competitive grants schemes focussed on new infrastructure which necessitate councils having a

[7] Queensland Competition Authority. Climate Change Expenditure Review 2022-2023. https://www.qca.org.au/project/climate-change-expenditure/climate-change-expenditure-review-2022-23/
[8] https://www.qao.qld.gov.au/reports-resources/reports-parliament/local-government-2023

pipeline of "shovel ready" projects in order to take advantage of short delivery timelines. Councils without the capacity (technical or financial) to undertake integrated planning activities for their assets are trapped in a cycle of reactive asset maintenance and repair, which increases budgetary pressures and reduces the capacity of council to undertake proactive infrastructure renewal.

Prior to 2009, Queensland Local Governments had secure capital works subsidy income to ensure essential services continued to be available in all communities in Queensland. The level of subsidy depended on the size of the Council, and growth and remoteness pressures.

Since 2009, Government funding has prioritised policy objectives such as economic development and jobs creation rather than funding for essential services.

This funding approach is being addressed either by Local Governments avoiding asset maintenance and renewal (which ultimately leads to critical failure of essential services) or through increased borrowing (which ultimately leads to financial sustainability problems for Local Governments.)

As an example, Central Highlands Regional Council financial modelling shows that the impact in forgone essential water services subsidies amounts to a total $29.53 million since 2009, made up of:-

- $19.66 million for water ($14.74 million in foregone subsidies and $4.92 million in incurred interest on funds borrowed to replace the removed subsidies)
- $9.88 million for sewerage (consisting of $7.84 million in foregone subsidies and $2.04 million in incurred interest on funds borrowed to replace the removed subsidies).

Note this is based on the WASP and SCAP (previous State Government funding programs) guidelines when the programs were withdrawn.

To fund these essential infrastructure upgrades Central Highlands has had to borrow a total of $57.6 million. This debt is a massive burden for Council and community and ultimately creates financial sustainability challenges for Local Governments.

As an example of under investment in asset renewal, a recent study by the Southwest Queensland Sewer and Water Alliance (the local government areas of include Balonne, Bulloo, Maranoa, Murweh, Paroo and Quilpie) conducted detailed asset assessments for these councils across all urban water asset categories (drinking water sources, drinking water reservoirs [towers], WWTPs, sewers and sewage pumping stations).

These councils are all considered to be small or very small, regional and remote LGAs. Combined, the LGAs cover 18.5% of Queensland by land area, but their combined population of approximately 24,000 representing less than 0.5% of the state's total.

The communities within these LGAs are almost exclusively reliant for drinking water on the Great Artesian Basin (GAB) from bores with an average depth 800 metres. GAB bores have an expected asset life of 75 years. The study has the following preliminary findings:

- 11% of drinking water supply bores in the region are more than 100 years old and at critical risk of failure.
- 20% of drinking water supply bores in the region are more than 80 years old and are at serious risk of failure.
- A number of these critical risk towns are single bore supply placing these towns at risk of water security failures.

- CCTV surveys of sewer network assets show that 12% of sewer assets by length of assets are at a point of critical failure.

The report has recommended the allocation of $3 million to a bore re-sleeving program to ensure water security for these communities, which represent around 40% of the total number of communities that are reliant on the GAB for drinking water supply.

A further $8 million will be required for a regional sewer relining program to restore the integrity of region's 265 km of sewer mains. The state has 36,000 km of sewerage mains[9], so even a liberal estimate of renewal costs would be in the hundreds of millions of dollars.

At the same time, there is an increasing pressure from Regulators to improve performance across the urban water sector. These higher standards have a flow-on effect to costs for water service provision and exacerbate some of the concerns for regional and remote service providers as outlined above.

As a specific example, in September 2022 the Australian Drinking Water Guidelines were revised to include advice on the adoption of Health Based Targets (HBT) for drinking water suppliers. The guidance acknowledged that full implementation of small water suppliers would take time and require a significant substantial investment:

- Most water treatment plants in Queensland are old, especially in smaller communities where capacity expansions (and thus modernisation) have not been required due to declining populations.
- Older water treatment plants typically have a single microbial treatment barrier for protozoa.
- Most surface water drinking catchments in Queensland would be in the highest risk category (uncontrolled), due to proximity to grazing pasture.
- Implementation of HBT requires a LRV of 5 for such catchments.
- Most water treatment plants, even best practice provide a LRV 4.

There are similar emerging issues with increasingly stringent regulation of emerging contaminants (PFAS, microplastics) and nutrients.

In larger local government areas (LGAs) with larger populations centres and rates bases there is significant cross-subsidisation of water business' operational, capital and development costs within council budgets. This can (and is) manifest in several ways, for example:

- LGAs with larger population centres but which have small, remote and rural communities (many of which were annexed during LGA amalgamations) are investing large amounts (anecdotally well in excess of $10,000 per connection), to provide the same level of drinking water service that urbanised centres expect.
- Some LGAs with large populations and profitable water businesses are using water rates to subsidise other council run services. This is exacerbated by the decline in support from state and federal government for LGA services[10].

[9] https://explorer.water.qld.gov.au/
[10] https://www.lgaq.asn.au/downloads/file/571/lgaq-cost-shifting-report

The desired ring-fencing of water businesses from LGA finances will assist with both an understanding of the true cost of urban water services, and transparency of cross subsidisation within councils. However, incentives may be required to gain the required political acceptance for such moves.

The Urban Water Sector Skilled Workforce

To enable "basic levels of service" there must be confidence in the competence of all staff managing the water assets and systems, but particularly operational staff. **There is currently no minimum mandatory standard for drinking water treatment operators in Australia.** This includes sewerage treatment operators by extension.

This is a surprising fact for a role that facilitates a basic human right[11] and is covered by United Nations Sustainable Development Goal 6[12].

Mandating minimum mandatory standards for operators has the potential to improve the skills (accessibility and employee retention) through improvements in:

- The value of urban water as an essential service industry
- Increasing the predictability of training needs within the sector
- Improving the sustainability of Registered Training Organisations (RTO's) servicing the sector
- Enhancing the perceived value of water services as a career option
- Improving remuneration for water services workers e.g. through a dedicated award
- Improving the visibility of the sector in the jobs market

There is currently an industry-led project underway which is seeking to inform the development of an operator benchmarking framework for urban water operators. The work, undertaken by Water Research Australia (Project 1139) was delivered in March 2024. The report identifies the issues and makes recommendations that can guide the sector toward an agreed minimum standard for operators. It will be critical for the urban water sector to receive appropriate levels of support to ensure that all service providers can meet these minimum standards of competency if adopted.

The water and sewerage sector's skilling is now managed at federal-level through the Jobs and Skills Councils, funded through the Department of Employment and Workplace Relations. In this forum the urban water sector has been consolidated into BuildSkills Australia, the other represented sectors being construction, plumbing and services, property services and civil infrastructure. The national water industry in this context is a minor sector, and it is difficult to see how adequate representation for this **essential service** can be achieved. The sector is struggling to compete with larger industries, in its visibility, competition for workers, skills support and subsidies.

An area of concern in this context is the interaction between the federal government funding, and the delivery of subsidised training through state government programs i.e. ensuring that the National Water Package delivers the necessary training underpinned by the appropriate levels of support that water service providers rely on.

[11] United Nations General Assembly Resolution 64/292
[12] https://sdgs.un.org/topics/water-and-sanitation

The Directorate undertakes a biennial survey of water and sewerage service providers, the outcomes of which are published.

Key observations from the 2022 survey (33 respondents, 3,706 employees) are:

- High vacancy rates, especially for water treatment plant operator positions.
- An aging workforce across many critical career families
- Vacancies are protracted with 45% of water operator positions being vacant for greater than 13 months.
- 79% of water operators and supervisors have at least a Certificate III in Water Industry Operations.

These statistics do not reflect the training gaps across the state, nor the relevancy of the training that has been received by operators. This largely comes as a result of the packaging rules that surround training subsidy, governing the training modules that can be undertaken. Nor does it consider that water operators bear huge responsibility for the provision of safe drinking water to community.

The situation in indigenous communities is especially concerning. Recent data obtained from a survey of Indigenous Councils' skilling requirements[13] has highlighted the deficits in skilling within the state's 17 Indigenous Councils, which operate 31 drinking water supplies.
In summary, of all water operators in indigenous councils in Queensland:

- 82% require training in sampling and testing of drinking water
- 81% require training in the application of drinking water guidelines
- 79% require training in coliform testing
- 75% require training in hypochlorite disinfection of drinking water
- 75% require training in the identification and response to water quality problems

These statistics highlight a fundamental need for basic skills that support the provision of safe drinking water in indigenous communities. The Queensland Government is actively pursuing this objective.

Previous submissions made by ***qldwater*** to the Productivity Commission have also identified a fundamental training supply market failure either existing or imminent. In Queensland this has come to fruition after the departure of TAFE Queensland as one of only three RTOs eligible for state subsidies (Skills Assured Suppliers) for the delivery of the National Water Package in 2022. Training subsidies are a cornerstone of delivery of training to operators in Queensland due to the remoteness of service providers, and the resultant high costs of training delivery and the high cost (transport and accommodation) to attend training at regional hubs.

Since that time, active engagement by ***qldwater*** with Queensland Government and RTOs in Queensland has led to the return of the RTOs eligible for state subsidies to three, which it is anticipated will somewhat improve access to appropriate training for Queensland's remote and regional urban water workforce.

[13] Queensland Health (2023). Indigenous Water Operators Training Gap Analysis Project.

Governance of Regional and Remote Services

The Queensland Water Regional Alliance Program (QWRAP) is a program which has successfully enhanced collaboration between small local government owned water and sewerage service providers in Queensland.

QWRAP is an industry-led initiative to investigate regional collaboration on water and sewerage services in regional Queensland. The program is a collaboration between the Local Government Association Queensland (LGAQ), ***qldwater*** and the Queensland Government (through the Department of Regional Development Manufacturing and Water). The program encompasses 56 councils categorised into nine regions, with discussion underway for the inclusion of the tenth region. With the onboarding of the tenth region, all 67 local government owned water and sewerage service providers in Queensland outside of the SE Queensland will be active participants in the program.

The program secured permanent funding from the Queensland Government in 2023, and has four Strategic Priorities:

- Enable regionals scale delivery of sustainable services
- Build capacity and capability
- Drive regional partnership services and initiatives
- Promote QWRAP.

This model of governance is an interim option for those jurisdictions where urban water services are managed entirely by local government (as is the case in Queensland and New South Wales).
In its initial stages and for those regions that are new to collaboration on urban water, the QWRAP program focussed on the low-risk, high-reward activities such as joint procurement for services. These activities have included:

- Sewer relining
- Reservoir cleaning
- Water mains air scouring and cleaning
- Wastewater lagoon desludging
- Regional smart water metering trials
- Cyber security audit risk assessments
- Alignment of statutory Drinking Water Management Quality Plan audits
- Cooperation and collaboration during disasters and extreme events.

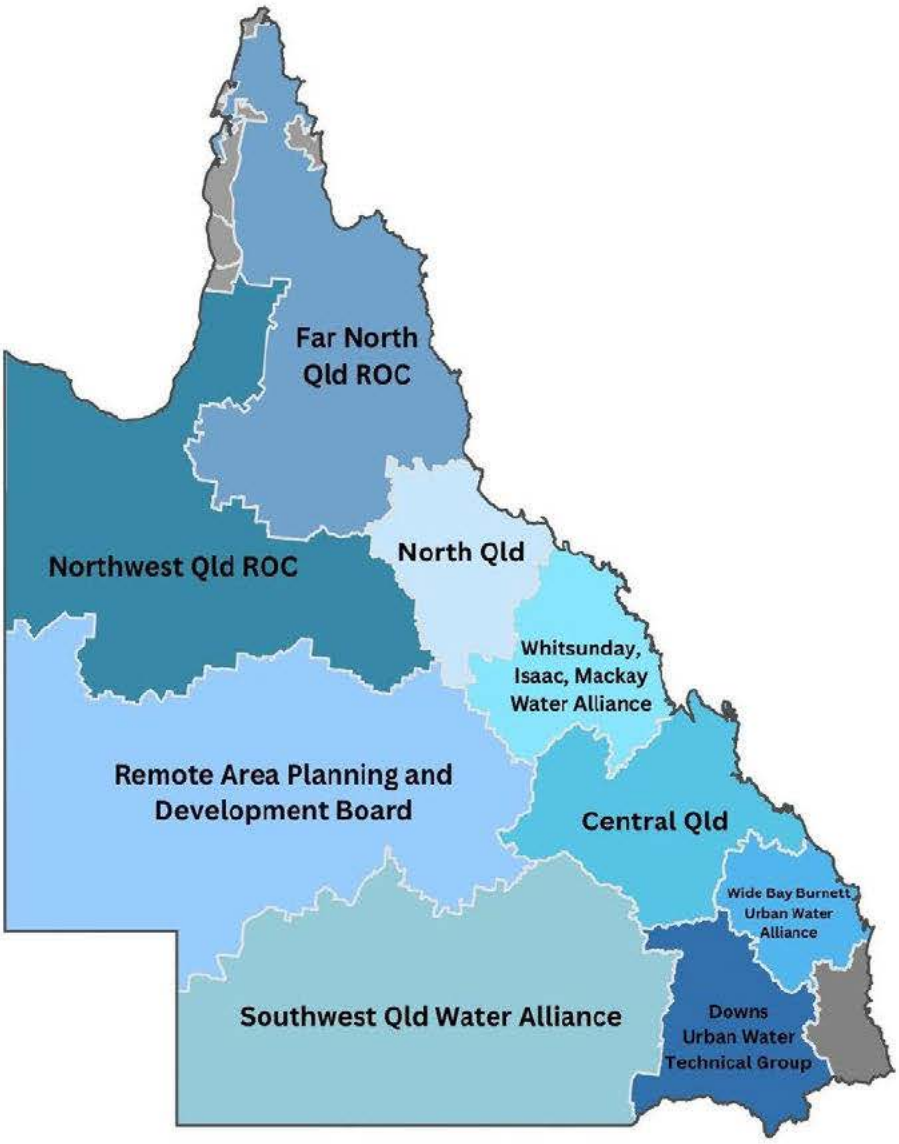

Figure 2. The Queensland Water Regional Alliance Program coverage map showing the nine regions as at the beginning of 2024.

These sorts of activities have multiple benefits, which range from the obvious cost savings associated with reduction in contractor mobilisation costs, to more subtle improvements such as:

- Management of a single contractor for the whole region results in higher quality of service delivery.
- A greater choice of contractors is open to the councils through higher value tenders.
- Contractual streamlining and strengthening for individual councils (e.g. specifications).

Success in low-risk projects results in increased collaborative maturity, which has led to more complex collaborative projects being initiated with a stronger strategic focus. Examples include:

- *Regional Sewerage Treatment Plant Upgrade Options Assessment* – An earlier phase of this project identified improvements required to ensure consistent regulatory compliance at wastewater treatment plants (WWTP) across the region. The second phase is to examine the options for individual WWTP and facilitate works.
- *Workforce Planning and Resource Sharing Arrangements* – Some regions are conducting similar projects targeting examining regional workforce planning in various disciplines. This can support facilitated joint training, worker relief and access to technical assistance.
- *Regional SCADA Collaboration and Alignment* – A regional approach to SCADA is being examined by two regions, with the potential future benefits such as alignment of equipment and software, technical expertise, and the possibility of ultimately a regional SCADA control centre.
- *Feasibility Investigation Regional Water Hub Services Model* – A regional water hub services model is our aspiration for all QWRAP regions. One region is taking steps in this direction, with initial interest and engagement at a local government political level.
- *Infrastructure and Asset Management Strategy* – A region has undertaken a comprehensive assessment of the infrastructure needs and risks for individual communities to develop a regional water and sewerage infrastructure strategy.

While the delivery of urban water services remain the responsibility of local government in Queensland, this program can provide a pathway towards more sustainable delivery of urban water services in remote and regional Queensland.

Thank you again for the opportunity to provide initial comment on the Inquiry into the Financial Sustainability and Funding of Local Government.

Please do not hesitate to contact me at gdavis@qldwater.com.au if you have any questions.
Yours sincerely

[redacted]

Dr Georgina Davis
Chief Executive Officer