



Submission to the

**New South Wales Department of Water and Energy for the
Review of Water and Sewerage Service Provision in
Regional and Rural Local Government**

by the

**New South Wales Local Government, Clerical, Administrative,
Energy, Airlines & Utilities Union**

New South Wales Local Government, Clerical, Administrative,
Energy, Airlines & Utilities Union
(The United Services Union)

Level 7, 321 Pitt St. Sydney NSW 2001
Ph: 02--92658211

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Authorised by Ben Kruse – General Secretary

Introduction

The United Services Union (USU) is the principal union in Local Government in New South Wales, covering a range of workers in the provision of Water and Sewerage Services. A large proportion of our members work in administration, areas as well as, outdoor maintenance and construction services.

The United Services Union holds grave concerns for the ongoing sustainability and viability of Local Government authorities should the review ultimately lead to the transfer of these service provisions away from the domain of Local Government.

In this submission we intend to outline our perspective in respect of the reduction of employment opportunities in Rural and Regional New South Wales and the effect this review has the propensity to attain.

The areas of Local government effected will not only be in the direct loss of employment opportunities in areas that currently have a direct relation to service provision such as Operators of Treatment Plants for both Water and Sewer but also the flow on effect which would be felt in other areas of council operations which are not limited to the following-:

- Information Technology
- Human Resource Management
- Payroll
- Accounts Payable/Receivable
- Purchasing
- Stores
- Customer Service
- Survey and design
- Construction
- Senior Staff and Management responsibilities
- Environmental Service
- Plant and Equipment
- Operational Staff.

The main thrust and purpose of our submission is to ensure that the State Government maintains a focus on-:

- Protecting the Rights of Workers current and future
- Maintaining Employment Security for current and future employees
- Respecting this Unions right to have coverage of employees involved in the provision of these services, now and into the future

Whilst we do support the process of review, we do not support the transportation of these services away from Local Government. The review must benchmark all Local Government Water Utilities and ascertain the differences between the Utilities that provide current Best Practice Models and the rest, and then identify strategies for the improvement of the Utilities that do not meet the standards. Models that are

developed through the review process must be adaptable to meet the extensively differing Geographical and Socio-Economic structures of Rural and regional New South Wales.

The Union's submission incorporates issues that have been raised by our members reflecting their experiences in the industry. Information has been gathered during workshops held by the Union as well as comments made in response to the Government's announcement of the Review.

1. Local Government – Regional and Rural jobs at risk

The United Services Union estimate that across the local government areas in New South Wales the review has the potential to impact upon in excess of five thousand (5,000) jobs participating in direct service provision. Indirectly the review also has the propensity to effect a further three thousand (3,000) positions within local government. This does not take into account the likelihood that should there be a reduction of employment opportunities in local government the flow on effects to the local communities could be disastrous. Small business will be directly affected should there be a wholesale removal of employment opportunities within local government areas to the extent that many businesses will close.

Jobs in local government and small business are the life blood of regional and rural New South Wales.

Local Government in regional and rural New South Wales is open for business; it is a one stop shop for all manner of service provisions ranging from Customer Enquiry to Development and Planning functions.

The creation of separate entities for the provision of Water and/or Sewerage Services will create duplication of function rather than create economies of scale in this area. Councils currently have the flexibility through, in the whole, a multi-skilled workforce which enables them to prioritise service provision and utilisation of their workforce to best meet the needs of the local communities at any given point in time. Plant and equipment is used across many functions of council which sees the councils being able to maximise usage and therefore attain their own economies of scale.

Provision of Water and Sewerage Services is an integrated function within the whole planning and development cycle within council, to see this service provided by separate entity could actually establish conflicting priorities in service provision and thereby introduce more bureaucratic red tape into these already convoluted processes. The Local Government Act has entrenched within it the provision to protect employment opportunities within Local Government areas. This fact is paramount to the claim that above all else rural and regional New South Wales need to be protected from further reductions of employment opportunities and prospects.

Emergency Services during Natural Disasters.

As seen over many years Local Government employees form the backbone of Emergency Services. All workers in the local councils are ready and able to provide emergency assistance as evidenced during recent natural disasters.

Reducing the staffing numbers in Local Government will reduce the ability to save lives and assets of local communities.

2. Minister Rees's meetings with Council Representatives

In the meetings held with council representatives Minister Rees took great pain to point out that the review process would be driven in the main by councils. He asserted that the State government had no preconceived ideas as to the outcome of the review and encouraged all councils to participate within the review process. He has stated that the review was not an asset grab nor would it be a process for accessing dividends from local government that were made available to councils through the provision of water and sewerage services. He further iterated that models as and when they were developed would not be a "one model fits all" and from the United Services Union standpoint that is certainly an acceptable theory.

The Union maintains that certain Local Water Authorities actually provide their services at current best practise standard and to that end we believe that these authorities should be able to stand alone and continue to provide the services in the manner in which they currently do. These utilities should be provided as best practise examples and disparity in service provision between them and other providers should be identified. This should form the basis of investigation, and assistance should be provided to non conforming councils in an endeavour to have them increase efficiencies to the extent that they do become compliant.

Minister Rees was also of the opinion that an independent pricing tribunal should be set up to regulate service provision pricing, a system which currently operates in areas that Sydney Water administer. The United Services Union does not oppose this philosophy as this is one area that could be a contributing factor to the ongoing shortfall in revenue being collected by councils which could be used for future infrastructure upgrades. Notwithstanding this we would also contend that Local Government in general is underfunded from both the State and Federal level and the review should encompass this issue as one of the main principles for the review.

Ground water allocations are yet another major issue which needs to be reviewed as an integral part of this process. It has also been pointed out by council representatives at the forums that Minister Rees attended, that there are up to three different Ministers within this State alone that have at times conflicting priorities and responsibilities in the provision of water and sewerage services. These services not only encompass specific service provision but also have regard to environment protection and management of relevant catchment areas. Councils in most regions see the need to address the issue of stormwater catchment and reticulation as a major component of an integrated service review, this may not be possible should the operation of, and provision of water and sewer services were removed from local government.

3. The Challenges Ahead

The United Services Union is committed to working with The State Government and Local Government to achieve a system that not only maintains job security and service provision but actually enhances these opportunities. There is currently a skills shortage in this sphere of operation; one need only liaise with Tenix Alliance to understand the impact on employees of local government when private enterprise undertakes project work in the area of infrastructure development for local government. The employees of local councils are reticent to move to the private enterprise entity to assist with project management and construction phases and it is proving a difficult task for Tenix to engage suitably qualified operators to run plant. Contemporary training plans and the provision that ensures the employment of Trainees, Cadets and Apprentices must be an integral component of any model that is adopted for without addressing the matter of skills development and enhancement then surely any system will ultimately fail.

Communities and their representatives will be abundantly clear in their own minds just where they believe the review process should end up, it would be fatal for the Government to conclude the review without surveying at least in part, the constituents of local government, be that in the form of a random phone survey or hard copy. It is extremely important that as many people and organisations have the opportunity to present their particular perceptions in this matter.

The needy majority are also an interested bystander in this process, surely it will need input from local community service organisation and studies need to be undertaken to certainly assess any impact the imposition of a pricing regime will have on the less fortunate within our society.

It remains extremely important that submissions in isolation do not become the deciding factor in model development. We extend to the review panel that Shoalhaven Water and Eurocoast Water would be prime examples of operations that meet current best practise standards, and as such we request that the panel actually include visits or site investigations of this nature into their itinerary, it would be unfortunate if the panel members did not avail themselves of the opportunity to get out and actually converse with the grass root service providers to get their opinions so that they can fully complete their investigations and consultation.

Corporatisation and Job Losses.

The corporatisation of Hunter Water and Sydney Water resulted in jobs being cut by more than 50%.

Corporatisation leads to Privatisation.

The NSW Government has introduced the "*Water Industry Competition Act 2006*" to facilitate the licensing of private companies that supply water and sewerage services. The recent draft regulations "*Water Industry Competition (General) Regulation 2008*" and associated "*Regulatory Impact Statement*" have further opened the door to privatisation.

Problems with Privatisation.

The “*Water privatisation and quality of service - PSIRU evidence to the Walkerton enquiry, Toronto, July 2001 by David Hall, Director, PSIRU, University of Greenwich July 2001*” highlights two main problems; These are:

- Profit-oriented management behaviour
- Fragmentation of responsibility

The PSIRU evidence continues to explain:

Cycle of behaviour

A. Contract terms and corruption

Companies aiming to maximise the benefits from a long-term concession have incentives to engage in corruption. This may take the form of a bribe to a person or a political party, or the allocation of monopoly profits to politicians or their relatives.

This pattern of bribery is widespread where private interests are introduced into public services, it is not restricted to developing countries, or to one or two European countries reputed to be ‘corrupt’.³ At present, in July 2001, there are court cases in the USA, in both New Orleans and Bridgeport Connecticut, concerning water contracts where bribes were paid by executives of Professional Services Group, now part of US Filter, itself part of Vivendi.⁴

B. Higher prices

The public interest lies clearly in obtaining lower prices, and this is usually the key parameter used to evaluate bids for private water concessions. However, after the bidding process, the operator has a simple incentive to maximize prices. We thus find a diverse range of strategies for doing this – in the UK this has taken the form of bargaining with the regulator, in France and elsewhere it occurs through a series of technical adjustments and renegotiations which cumulate to a considerable gain. Privatised water prices in France are between 10% and 15% higher than public sector water prices in the same country.⁵

One typical adjustment is upward renegotiation of prices after concessions won on forecast rising demand which does not materialise. One example was in Gdansk, Poland, the most northerly privatized water concession, in 1992, where the French multinational SAUR negotiated higher prices after a year because consumption levels had not matched their forecasts; the latest example, in June 2001, is in the most southerly privatized water concession in the world, in Dolphin Coast, South Africa – where the same company, SAUR, has informed the authority that the failure of middle class development to keep pace with their assumptions means that prices have to rise. ⁶

C. Underinvestment

The scale and cost of capital investment in water means there is a consistent incentive to minimise it. Given that specific investments are usually central to the purpose of the privatisation, this means that there is a constant tension

between the public service objectives and the profit-seeking behaviour of the company.

In the UK scheme, investment projections formed part of the basis on which companies were allowed to charge prices. Once the price rises were agreed in 1995, many companies rapidly discovered reasons not to follow the investment forecast, and announced 'capital efficiencies' which enabled them to award the money not spent on investments as increased dividends to shareholders. These were substantial amounts, between £50m and £100m (Can \$120m to \$240m) for Thames Water, North West Water, and Yorkshire Water (now Kelda), for example. 7

Impact on environment and water quality

Given this pattern, what can be said about the relationship between the typical processes of privatization and the impact on environmental and service quality? The main impact is always likely to be on costs, but there are clear points where the behaviour of private companies have negative effects on environmental and service quality too. Two examples of this are given here.

A. Yorkshire and drought, 1995

The UK drought of 1995, for example, saw Yorkshire water unable to maintain piped water supplies to the major town of Halifax, for 6 months. OFWAT suggested in 1996 that Yorkshire Water PLC's serious failures to ensure a reliable and continuous supply, as well as to control leakage and flooding from sewers had to be related to the company's dividend policy. 8

B. Trading water to exploit shortages

In 1999 Enron's water subsidiary Azurix set up a trading venture, Water2Water, to make transactions relating to the transfer of water and the purchase and sale of water storage and water quality credits. Azurix said that it expected the first subscribers to be in the western United States.

In the same year Azurix bought into a huge bulk water 'bank' in California, Madera water bank, with a capacity of 400,000 acre feet and maximum extraction of 100,000 acre feet a year. Azurix said it planned to sell bulk volumes of water to various public and private sector customers in central and southern California under 20 to 30 year lease agreements at fixed price, covering.

Azurix stated: "We estimate that the remaining 20 percent of the storage capacity will be retained by Azurix for the purpose of trading and optimisation. Trading will be maximized during dry and drought years when demand far exceeds supply".⁹ In effect, the company plans to profit using a combination of the techniques that have delivered profits in electricity – long-term guaranteed contracts with public authorities, plus exploitation of markets through trading. This contains a direct parallel with the California and Maharashtra energy crises: Azurix' parent, Enron, was one of the power companies which made huge profits in the California electricity market when prices soared, and also the company that has threatened to bankrupt the Maharashtra state electricity board in India.

Fragmented responsibilities

Weak chains of responsibility

A general problem with almost any form of privatisation or subcontracting is the creation of uncertainty of responsibility. Following a reorganisation under public ownership in 1974, the water service in England and Wales, uniquely in Europe, was based on unitary river-basin authorities, responsible for water, sewerage, and rivers. All monthly board meetings were open to the public. One immediate result of privatisation of water in the UK was the loss of this unitary system of responsibility.

There are now three separate regulatory bodies – the Environment Agency, the Drinking Water A. OFWAT, responsible for economic regulation and with the power to apply economic sanctions and incentives, does not recognise any environmental responsibilities.

Most privatised water systems exhibit this problem to a greater or lesser extent. Thus in France, the Agences d'Eau are conduits for investment finance, but have to wait for the operators to decide to make the investments. In developing countries the key public service objective is usually to extend the service. Recent studies in Cartagena (Colombia), Cordoba (Argentina) and La Paz (Bolivia) have all shown how private operators (Suez-Lyonnaise in all cases, as it happens) systematically avoid making the investment in such extensions, despite contractual obligations and political demands, because they regard such connections to the urban poor who can only afford water with cross-subsidy as too risky – not profitably sustainable.¹⁰ Thus the chain of responsibility is simply broken by the force majeure of profitability.

Another example in the water industry is the case of Suez-Lyonnaise in Brittany, France. The company was successfully sued by local consumers because of the excessive levels of nitrates remaining in the drinking water. The company continued to deny responsibility, however, on the grounds that the level of nitrates was so high that it would be uneconomic for Suez-Lyonnaise to extract it. The company claimed that problem was caused by local farmers using excessive fertilizer, with the government ultimately responsible for not enforcing restrictions on the use of such fertilizers. Suez won their court case against the government, which thus has paid for the compensation. The relevant point is the denial of any responsibility other than providing a service within the boundaries of acceptable profitability.

The above extract provides both evidence and explanations against the perceived policy of the current NSW government in moving towards privatisation. A further report completed in 2005 is supplied as “**attachment C**”. This report examines in detail the inherent issues relating to the privatisation of water.

4. Extract from the United Services Union Submission on the Draft Terms of Reference

Thank you for the invitation to submit the views and concerns of the New South Wales Local Government, Clerical and Administrative, Energy, Airlines and Utilities Union (United Services Union U.S.U) into the proposed Draft Terms of Reference for the State Governments review into the supply of water and sewerage services in New South Wales.

The United Services Union is the major Trade Union within New South Wales Local Government, having coverage of a significant number of blue collar and white collar employees employed in various occupations by New South Wales Councils, including the provision of all facets of Water and Sewerage operations.

The Union acknowledges the importance of reform to ensure efficient and effective service delivery in New South Wales, and to that end, it will continue to work with State and Local Government to ensure secure and sustainable water and sewerage services are provided to the people of New South Wales. However to achieve this goal the consultation process, nature of reform and, ultimately the model adopted to deliver reform is of extreme importance to our membership, local Councils and the wider community.

Reform must not be conducted in any way that directly or indirectly threatens Local Government employment security and/or working conditions, or places the long term sustainability of rural and regional Councils in jeopardy.

The Union has previously indicated in correspondence to Premier Iemma that it is strongly opposed to a water model that creates State based corporations, which in turn threatens Local Government employment security, not only for occupations in the discipline of water and sewerage services but also occupations that provide indirect services to Water/ Sewerage, such as mechanical, technical, maintenance, plant operation and administration, which in rural and regional Councils has a devastating “snowball” effect on both the financial sustainability of the Councils and the rural and regional communities that they govern.

Recommendations for the review process

1. The transparency and integrity of broad range consultation with all relevant stakeholders is paramount. Widespread cynicism and criticism was directed at the consultation process undertaken during the 2004 Local Government Boundary Change and Amalgamation Reforms, by the industry stakeholders.

The Union recommends a Reference Group to assist and support the proposed two community members in the public consultation process, such Reference Group to include representatives of relevant industry Unions and community groups, LGSA, Water Directorate, LGMA, IPWEA, Department of Local Government.

2. The Terms of Reference should ensure a full investigation is undertaken into the increasing challenges faced by New South Wales Councils to provide

effective water and sewerage services (State and Federal Government funding etc). Such investigation should identify the factors that have inhibited the construction and upgrade of Councils assets and infrastructure and initially identify any means of assisting Local Government to overcome these problems and continue to provide the services.

3. The Terms of Reference should also take into account the wide ranging economic, social and industrial implications of any proposed new structural arrangements on the effectiveness of the Councils' day to day operational programs, planning of growth and infrastructure, employment and overall financial sustainability.
4. The Terms of Reference should take into account the importance of local community ownership and examine the consequential socio-economic effects on communities, affected employee families, businesses, ratepayers and residents, as a result of removing the water and sewer functions from local Councils.
5. The Terms of Reference should investigate the success of established Water County Councils and the benefits to the communities they service

LONG TERM IMPLICATIONS of removing the provision of water and sewer functions from Local Government:

- Water and sewerage functions represent a significant component of Council's existing operations, possibly in the order of up to 35% of the overall Councils' business;
- The water and sewerage function is critical to the overall long term financial sustainability of Councils;
- Significant numbers of employees and their families would be directly affected, with further numbers indirectly affected (e.g. mechanical, technical, administrative, HR, financial, stores etc);
- In all Councils but especially in rural shires, employees are multi-skilled and shared between General Fund services and Water and Sewer, providing great workforce flexibility in terms of both labour and plant;
- Loss of employment will have serious direct and flow-on effects on small communities and the affected families. The problems of skills shortages in regions will be compounded. The intent of the Employment Protection Legislation in the Local Government Act 1993 will be severely compromised, particularly in rural communities where core employment numbers have been guaranteed to prevent rural communities from becoming "ghost towns".
- Water and sewerage infrastructure and potential for expansion of services is a critical element of integrated planning for growth and development of a Council area and promoting growth in employment.
- Councils currently provide a one-stop shop for prospective major developments, of which water and sewerage supply are key components;

- Councils provide very cost effective services at reasonable costs to their ratepayers and consumers. Removal of the function from Councils will potentially mirror the recent restructuring in Victoria into Regional Water Authorities, which has resulted in substantial increases in costs, coupled with loss of local decision making and reduction in quality customer service;
- Councils control all aspects of water cycle management, including stormwater, reticulated water supply, wastewater, demand management, drought management, subdivision and development control, urban planning, town amenity and landscape etc as part of their overall integrated operations.

5. Conclusion

United Services Union members in Local Government have a wealth of valuable knowledge and experience which is worth serious consideration by the State Government as it determines appropriate strategies for ensuring the future of a cost effective, efficient, sustainable and viable Water and Sewerage Service provision in rural and regional New South Wales.

It is clear that there are many social, environmental and economic benefits derived from the important role of local government operated utilities that need to be protected in the long term, which, in turn will protect the ongoing viability and sustainability of rural and regional New South Wales. Indeed, long term benefits will be gained from increased investment into the industry by both the State and Federal Governments.

It is eminently clear to this Union that due to many variables it is impossible to mandate within any working models all of the facets that can and will impact on the provision of these services into the future.

- “One size fits all” will clearly be a model bent on disaster.
- The loss of employment in rural and regional communities will clearly be a means to ensuring that many small communities will wither and die.
- Loss of income to many councils will mean ultimately that they also will wither and die.
- Infrastructure not owned and operated by the local community will become a cash cow for business with profits being taken out of communities instead of being used to benefit the community as a whole.

It is also evident that the achievement of social goals, positive employment outcomes and a progressive shift toward sustainable services would be under threat as a consequence of not participating in a wholesale review process, but the process should not be used to the detriment of Local Government councils that already provide services to the acceptable standard. Identify the strengths and weaknesses and implement strategies to rectify the disparity. Do not use the so called “big stick” approach as this will surely see the destruction of perfectly well functioning services, whilst not necessarily addressing the matters that ideally do need attention.

Geographical advantages to having closely located and immediately accessible specific facility management and maintenance provision is the key to a successfully operated and maintained service provision.

The table “**attachment A**”, of recently obtained information from random councils highlights the union’s fundamental concerns and the immediate impact on rural communities.

A personal presentation given recently by a USU member during the Cooma Public Hearing is provided as evidence in “**attachment B**”.

Attachment A:

Random Selection of NSW Councils

COUNCIL	Total Effected Employees if water function is removed	Total Water / Sewer Revenue
Albury City Council	66	\$17,510,000.00
Armidale Dumaresq	80	\$8,964,000.00
Ballina Shire Council	27	\$5,884,000.00
Brewarrina Shire Council	5	\$628,162.00
Byron Shire Council	41	\$5,355,000.00
Coffs Harbour Council	329	\$41,751,078.00
Kyogle Council	20	\$1,826,000.00
Liverpool Plains S Council	14.5	\$1,557,100.00
Port Macq Hastings	129	\$33,900,000.00
Richmond Valley Council	26	\$3,700,000.00
Tweed Shire Council	123	\$37,700,000.00
Uralla Shire Council	23.7	\$1,017,040.00
Walcha Council	15	\$477,000.00
Wellington Council	19	\$4,000,000.00
Singleton Shire Council	17.66	\$9,220,000.00
Lismore City Council	80	\$5,200,000.00
Clarence Valley Council	61	\$20,830,000.00
Bega Valley Shire Council	72	\$7,630,000.00
Upper Lachlan Shire Council	38	\$1,200,000.00
Palerang Council	5.5	\$2,352,000.00
Gloucester Shire Council	4	\$1,069,000.00
Upper Hunter	210	\$3,700,000.00
Gunnedah Shire Council	16	\$3,300,000.00
Guyra Shire Council	8.5	\$863,000.00
Berrigan Shire Council	17	\$3,793,100.00
Narrandera Shire Council	14	\$1,630,000.00
Cowra Shire Council	32	\$4,703,000.00
Griffith Shire Council	49	\$6,682,000.00
Leeton Shire Council	24	\$5,000,000.00
Jerilderie Shire Council	8	\$331,000.00
Hay Shire Council	7	\$953,000.00
Balranald Shire Council	5.01	\$879,240.00
Urana Shire Council	1.4	\$210,000.00
Wentworth Shire Council	21	\$1,764,280.00
Murray Shire Council	14	\$2,436,036.00
Central Darling Shire	18	\$536,000.00

Attachment B:

**INQUIRY INTO SECURE & SUSTAINABLE URBAN WATER SUPPLY &
SEWERAGE SERVICES FOR NON-METROPOLITAN NSW**

PRESENTATION TO THE COOMA PUBLIC HEARING ON 24 APRIL 2008

INTRODUCTION:

My name is Kylie Coe and I am employed by Palerang Council. I have been employed at this Council since its creation by amalgamation in 2004, and prior to that, I was employed by Tallaganda Shire Council, based at Braidwood since 1996.

I am here today representing the United Services Union and my fellow workers at Palerang Council, which currently employs 112 people.

My current role within the Council is that of town planner, however I have been a member of Council's Consultative Committee since I began work with the Council – which I believe gives me an insight into the operations and functions of the various sections of Council and how they interact.

Social Impact on small rural communities

In presenting this submission I would like to concentrate on the social impact of the review and potential outcomes, especially as they relate to small rural communities such as Braidwood, which has a population of approximately 1100 people.

Whilst I understand the need for a review in relation to addressing the challenges facing local water and sewerage utilities, particularly the smaller ones such as Palerang Council, it is also important to ensure that the State Government maintains a focus on protection and maintaining employment security for current and future employees.

Models that are developed through the review process must be adaptable to meet the extensively differing geographical and socio-economic structures of rural and regional New South Wales.

Palerang Council currently has six staff employed directly by the water and sewer fund. There are also 4.5 employees indirectly employed from these two funds. It is already recognised that jobs in local government are very important to the economies of small towns. The State Government recognised this in the amalgamations that occurred in 2004 throughout NSW when *Clause 218CA(2) of the Local Government Act* was amended to maintain staff numbers in rural centres. The act reads as follows:

(2) *The transferee council must ensure that the number of regular staff of the council employed at the rural centre is, as far as is reasonably practicable, maintained at not less than the same level of regular staff as were employed by the previous council at the centre immediately before the amalgamation or alteration of boundaries took effect.*

rural centre means a centre of population of 5,000 people or fewer, and includes a geographical area that is prescribed, or is of a kind prescribed, by regulations in force for the purposes of this definition as being a rural centre.

Braidwood fits within this definition of rural centre, and since the amalgamation senior staff and Council have constantly striven to maintain these core numbers within Braidwood as it is important for a rural community the size of Braidwood that these positions and wages are not lost to such a small community. The concern of staff and members of the local community is that the loss of positions through the removal of water and sewer services from local government comes at a huge cost to the social and economic well being of a town like Braidwood.

The village of Braidwood has experienced steady population growth between 1996 and 2001 (2.6% average annual population growth) but it is an ageing population. The 2001 median age of Braidwood (42 years) is some 7 years above the NSW State median age (both 35 years).

The 0-19 age-group (children) makes up 26% of the population and the 30-49 age-group (primarily parents) makes up another 27% of the population. Only a minor decline in these age-groups was experienced from 1996 (less than 2% in both cases). The 20-29 age-group comprised 9% of the population in both 1996 and 2001, but the 20-24 age-group fell from 4.5 to 3.0% in 2001.

Most significantly was the proportion of the population aged over 60 years and over. In 1996 this represented 22.6% of the population and in 2001 it represented 24.1%, an increase of 1.5%. The Age-Sex breakdown (Table 1) identifies that the proportion of population in the 50-54 age-group in 1996 which is the same as the 55-59 age-group in 2001, increased by 0.4%. A similar increase was experienced for the 55-59 age-group in 1996 to the 60-64 in 2001 with a 0.6% increase in population. This indicates that people at retirement age are choosing to stay or move into Braidwood. This is supported by the approval and commencement of construction of a 70 unit retirement village on the edge of Braidwood.

The One-Stop Shop & Provision Of Service:

Local Government in regional NSW is generally a one-stop shop for all manner of service provision, ranging from customer enquiry to service provisions such as roads, drainage, water, sewerage, town amenities, etc through to urban planning and subdivision and development control.

Councils also control all aspects of the water cycle management, including demand management and drought management as part of their overall integrated operations.

By providing this one-stop-shop Councils have the flexibility through, in whole, a multi-skilled workforce which enables them to prioritise service provision and utilisation of their workforce to best meet the needs of the local communities at any given point in time. Plant and equipment is used across many functions of Council which sees the Council being able to maximise usage and therefore attain their own economies of scale. It also allows Council to better co-ordinate work groups regardless of whether it is related to routine maintenance, upgrading of existing infrastructure or the provision of new infrastructure. Similarly staff resourcing is used across many functions of Council to run its administrative functions.

By separating water and sewerage will see a duplication of many of these services, particularly the administrative and design components, which could actually establish conflicting priorities in service provision and thereby introduce more bureaucratic red tape into these already convoluted processes.

The separation of the provision of water and sewerage services from Council will also lose the informal interaction and development of integrated community assets. Its infrastructure and potential for expansion of services is a critical element of integrated growth and development of a Council area and promoting growth in employment. Its loss or separation from the Council will result in substantial increases in costs, coupled with loss of local decision making and reduction in quality custom.

The separation of water and sewerage from Councils is a recipe for an increase in more bureaucratic red tape as already mentioned. The current interaction, both formally and informally, between various sections of Council allows projects both internally and externally to the Council to be much better planned and implemented effectively and efficiently. Separation of services only builds more barriers for the public or the developer to deal with.

A community like Braidwood, with an ageing population, likes the feeling of visiting one office to obtain all the answers. There is a sense of trust in local government in small communities, especially as the person serving at the counter is often known to the customer, through one or more social interactions via community groups or clubs. This sense of community is one of the reasons people choose to live in places like Braidwood.

Impact On Local & Regional Communities:

Small communities can be quite seriously impacted on by the loss of local jobs and activities, as there is a flow on effect from the diminished activity, in everything from schooling and housing to the viability of local businesses and services. Having the centre of control for water and sewerage services move out of town also impacts on the community feeling of empowerment, so community members feel more confident if they know their water systems are locally managed. Although not strictly rational, the fact that assets are owned by the local community is reassuring.

Further, a factor not often acknowledged well enough is the impact during a transitional period where a major change may be occurring in the community such as

a major business shutting down; this can place great stress and uncertainty on those employee and their families involved.

A recent example of this is the amalgamation process that was experienced in 2004. Staff morale fell to a dangerously low level, stress levels increased, a sense of distrust with the new organisation manifested itself, and community trust in the organisation virtually disintegrated. After a very difficult 4 and half years, Palerang Council is making some headway on these social issues, but it has been a long hard road. Further disruption and removal of services from these small communities will exacerbate these issues even further.

Reform of water and sewer utilities must not be conducted in any way that directly or indirectly threatens local government employment, or places the sustainability of rural and regional Councils in jeopardy.

There is a genuine concern that larger, more metropolitan areas are suggesting models which expand their empires at the expense of the smaller efficient water and sewer utilities operated by the local rural Councils. To suggest that this model would create a more economic and appropriate environmental scenario shows a complete lack of knowledge of what impact it would have on small communities such as Braidwood. It also fails to acknowledge the work being done by local government, especially Palerang Council, in ensuring that they are able to comply with the appropriate environmental and public health standards and implement cost-effective service standards that are financially self-sufficient.

I believe that a co-ordinated approach to land development by one major authority is preferable for rural areas where strong commercial markets do not exist. It is unlikely that a larger authority will provide the level of support to potential development that is provided by the Council and it would not provide the level of co-ordination with physical service provision. Since corporatization and regionalization of electricity supply, developers face twelve month delays in having subdivision works provided and minor works, such as installation of new street lights, can take up to six months.

Local Face / Local Situation

Finally, there have been quite a few generalities discussed today, and I would like to put a name and face to one of the many employees affected across NSW by this review, and in particular the services offered by Council's in small rural communities.

Colin Hewitt – Water and Sewer Operator in Braidwood. Colin was born and bred in Braidwood and attended the local school, along with his brothers. He began work for Tallaganda Shire Council in 1985, and has had continuous employment with the Council through the amalgamation process to the current day.

Colin has been trained in both water and sewer operations through the Council and is one of two employees based in Braidwood looking after these services.

Colin is married and has three children attending the local public school. His family has built a home in Braidwood and are very happy with the lifestyle offered by the small community. Colin has strong family ties to the local community with both his

parents still residing in Braidwood and is an active member of sporting clubs within the community, as are his children.

Colin and his co-worker provide a 24hr on call service to the residents of Braidwood for their water and sewer services. With the ageing population of Braidwood, Colin represents an employee of Council that the community knows and trusts. He is recognisable to a large proportion of the community he serves. He has vast local knowledge of people and places. He knows the pensioner who has just lost a partner, or whose dog has just been run over.

Colin does not want to leave Braidwood and enjoys his work, but is very concerned about the potential for loss of his employment if water and sewer are taken out of the hands of the local authority, and therefore the need to then have to leave Braidwood.

The flow on effect of this, is three children no longer at the public school, a family no longer shopping locally, local and corporate knowledge lost from the water and sewer services and social ties of a family being affected by distance.

CONCLUSION:

In conclusion, from my perspective should water and sewerage services be removed from Councils, large or small, there is no doubt that:-

- The loss of employment in rural and regional communities will clearly have a negative financial and social effect on the community
- The loss of income to many Councils will mean ultimately that they also suffer and potentially be non-viable
- Infrastructure not owned and operated by the local community will become a 'cash cow' for business with profits being taken out of communities instead of being used to benefit the community as a whole.

Therefore, on behalf of my co-workers we call on the NSW Government to support Local Councils by listening to the concerns of the community today; we need the vital function of providing water and sewerage services to remain with the people of our community. This will ensure that this vital service is never privatised and responsibility remains within our elected Council to provide high quality water services.

Geographical advantages to having closely located and immediately accessible specific facility management and maintenance provisions, as is currently provided by Palerang Council, are the key to a successfully operated and maintained service provision.

As a concluding point, the Inquiry needs to consider whether removing water and sewer functions from Council to allegedly create stronger authorities can be balanced against weakening the performance of the remaining Council and in turn reducing its ability to perform other public safety roles such as roads management, food safety management, and public infrastructure risk management.

Thank you.

Attachment C:

The relative efficiency of public and private sector water

by

David Hall and Emanuele Lobina

PSIRU, Business School, University of Greenwich

September 2005



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Introduction

It is widely assumed that the private sector is 'obviously' more efficient than the public sector. It is supposed that private companies have demonstrated their superiority in performance, and that this reflects the theoretically expected superiority of markets over bureaucracies under political control. On the basis of these assumptions, much current debate about policy in infrastructure and services assumes that achieving private sector operation is an objective in itself, and is always a desirable result.

However, the empirical evidence and the theoretical debates do not support this assumption. There is a consistent stream of empirical evidence consistently and repeatedly showing that there is no systematic significant difference between public and private operators in terms of efficiency or other performance measures. The theory behind the assumption of private sector superiority is also being shown to have serious flaws.

This evidence is of great importance for policy discussion. Due to the unsupported assumption, policies have become seriously imbalanced, with various forms of privatisation being introduced, while public sector options which could be much better are being ignored. This is a costly form of policy failure which causes economic, social and political damage.

General Evidence on Public and Private Efficiency

Surprisingly, the clearest assertion that the evidence does not support a general assumption of superior private sector efficiency has been made by the IMF. A policy paper written in 2004 concerned public private partnerships (PPPs), and was written in consultation with the World Bankⁱ. The question of private sector efficiency is crucial for justifying any form of PPP because public sector borrowing is invariably cheaper than private sector borrowing, and so the key issue is whether PPPs result in efficiency gains that more than offset the higher borrowing costs. The IMF paper states that: *"It cannot be taken for granted that PPPs are more efficient than public investment and government supply of services..."* and supports this by reference to the arguments and evidence: *"Much of the case for PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed. ..."*ⁱⁱ

This declaration by the IMF followed earlier statements from the World Bank stating a neutral position on public or private operators. In July 2003 the Wall Street Journal ran a story headed 'The World Bank as Privatisation Agnostic',ⁱⁱⁱ quoting senior WB officials on the re-appraisal of their policies on privatisation: *"There's certainly a lot of soul-searching going on" says Michael Klein, the World Bank's vice president for private-sector development* : and the article announced that *"World Bank officials have now decided it doesn't matter so much whether infrastructure is in public or private hands"*.

The empirical evidence from various surveys is that there is no systematic difference in efficiency between public and private operators. In 2002 Willner and Parker surveyed the large number of studies on the question of private versus public efficiency, in both developed, developing and transition countries, and observed that there is no consistent conclusion to be drawn: some show greater private sector efficiency, some showing greater public sector efficiency or no difference., and so they conclude that “it appears from the empirical evidence that a change of ownership from public to private is not necessarily a cure for an under-performing organisation.”^{iv}

The theoretical justifications for the assumption are also weak. The political theory of public choice assumes both that all public sector workers and managers are motivated solely by economic greed, which is unrealistic, and also that a desire for re-election is the key driving force for political interference and distortion: Willner and Parker observe that if this was true “public ownership should be more efficient in a Soviet-style economy without democratic elections than in, for example, North America or Western Europe and Scandinavia, where politicians more obviously compete for votes. In fact, however, experience suggests that the reverse is true.” Neither does the evidence support a consistent picture of labour extracting rents from the public sector - in some cases public sector pay clearly lags behind the private sector; and where there is monopoly or oligopoly of any kind, which requires public interest regulation if it is privatised: “it is then not certain that the joint effect of privatisation and regulation is higher efficiency than under public ownership. The theory of greater private incentives to cost-cutting applies to shareholders rather than managers, and the question becomes one of the overall set of incentives for managers in either case. Thus the conclusion is the same as from the empirical evidence: “it is not possible to derive any definite conclusions about the superiority of private or public ownership from a completely general model.” An earlier paper by Willner also offered a theoretical model that political intervention may outperform an oligopolistic market: following non-commercial objectives such as maintaining employment does not have to be interpreted as a political distortion, because social welfare objectives might point to the same actions.

A more specific assumption about privatization is that the UK, which pioneered large-scale privatisation under Mrs Thatcher, experienced a significant productivity gain as a result. However, this too is not supported by the evidence, which indicates that there has been no general efficiency gain from the privatisations.

Studies in the early 1990s found that most of the improvements in productivity came before privatisation, not afterwards: and municipal refuse collection services improved as much as privatised ones.^v A 1997 study concluded that their empirical material “...provides little evidence that privatisation has caused a significant improvement in performance. Generally the great expectations for privatisation evident in ministerial speeches have not been borne out”^{vi}.

A comprehensive and exhaustive analysis by Massimo Florio, published in 2004,^{vii} reviewed all the privatisations and concluded: “These results confirm the overall conclusion of previous studies that although the business cycle (and restructuring, while the company is under public ownership) has a discernible effect on a company’s performance, privatisation per se has no visible impact. I have been

unable to find sufficient statistical macro or micro evidence that output, labour, capital and TFP productivity in the UK increased substantially as a consequence of ownership change at privatisation compared to the long-term trend.” Florio also finds interesting results in respect of employment, namely that 7/8ths of all jobs cut in the industries were cut under public ownership, before privatisation; that pay levels relative to other workers did not change significantly as a result of privatisation, and comments that: “The data I have cited seem to contradict the prediction by orthodox privatisation theories that the change of ownership implies a removal of possible rents attributed to workers. Either these rents did not exist...or alternatively the rents existed and continued to exist under private ownership, despite the weakening of the trade unions”. On the overall costs and benefits, he estimates a large gain to consumers and shareholders, offset by a loss to taxpayers (and possibly workers), concluding that the net welfare impact may be very small, zero, or even negative, and so amounted to “a reshuffling of position of various agents, probably a regressive one”.

Relative performance of public and private sector water Operators

There are now a number of studies of the relative performance of public and private water utilities in both developed and developing countries. Overall, there is no evidence that public sector operators are intrinsically likely to be less efficient than private operators.

A new World Bank paper by Estache et al in 2005 has summarised the econometric evidence on water efficiency thus:

“Probably the most important lesson is that the econometric evidence on the relevance of ownership suggests that in general, there is no statistically significant difference between the efficiency performance of public and private operators in this sector....For utilities, it seems that in general ownership often does not matter as much as sometimes argued. Most cross-country papers on utilities find no statistically significant difference in efficiency scores between public and private providers.”^{viii}

This is especially significant since Estache has co-authored a number of earlier studies which have been used to argue for the superior efficiency of the private sector. An earlier World Bank research paper, widely quoted in support of the view that private water operators are more efficient, was a study by Shirley and Walsh^{ix} which claims that out of 24 comparative studies in infrastructure, half found private efficiency superior, 7 no difference, and only 5 found the public sector superior. But in the Shirley/Walsh paper, only 2 of these 24 studies concerned the water industry, both carried out in 1970s: one of them, in the USA alone, with a sample size of 2, is said to have concluded that private was more efficient; the other, with a sample size of 214, found that public sector performance was superior.

The evidence that the public sector is not intrinsically less efficient is now supported by studies on water operators on all continents.

On Latin America, a major paper published by the Brookings Institute in 2004^x studied the growth in water and sanitation connections in cities in Argentina, Bolivia and Brazil, both in cities which had private sector participation, and in cities which had no private sector involvement. Using household level data, it is the most comprehensive comparative survey of connections under private and public management – other case studies have focussed on private sector operations alone and assumed that any improvements observed were due to private ownership. It concluded that “while connections appear to have generally increased following privatization, the increases appear to be about the same as in cities that retained public ownership of their water systems”.

A 2004 study of about 4000 sanitation operations in Brazil found that there is no significant difference between public and private operators in terms of the total variation in productivity. Regional operators have lower productivity levels than municipalities.^{xi} A study of water utilities in Chile^{xii} found that private operators had increased investment and labour productivity by more than public companies: though they had also increased their rates by more, and had performed worse in dealing with unaccounted for water.

In Africa, a 2004 study by Kirkpatrick et al, covering 110 African water utilities, including 14 private, found no significant difference between public and private operators in terms of cost.^{xiii} A much smaller earlier study by Estache and Kouassi of water operators in Africa in 2002 did find that private operators were more efficient, but only included 2 private operators, and institutional quality was a more important factor than private ownership in explaining differences in efficiency.^{xiv}

In Asia, a similar mixed picture emerges. In 2004 the Asian Development Bank conducted a survey of 18 cities in Asia, which included two cities with private sector concessions - Manila and Jakarta. These were performing significantly worse than most public sector operators on four indicators of coverage, investment, and leakage:^{xv}

- The percentage of households connected to water supply in Manila and Jakarta is lower than all other cities except one (Ulanbaator);
- the percentage with access to sewerage in Manila and Jakarta is lower than in any of the other cities except one (Vientiane)
- Capital expenditure (US dollars per connection) in Manila and Jakarta is much lower than in cities such as Delhi and Dhaka, even though these latter are in countries with lower per capita income;
- In terms of the levels of non-revenue water (leakage and unpaid consumption) Manila is worst, and Jakarta fourth worst.

On six indicators (unit production costs, percentage of expenses covered by revenue, cost to consumers of constant level of usage per month, 24 hour supply, tariff level, connection fee) their performance is middling, not outstanding. The private cities perform relatively well on two indicators: revenue collection efficiency, and minimizing the number of staff per 1000 connections.

An earlier study by Estache et al^{xvi} on 50 cities in Asia in 1995 has had a double life. The first version, published in 1999, concluded that the results showed “the private operators are more efficient”; but the final report, published in 2002 in the World Bank’s own economics journal, presents a very different conclusion: “The results

show that efficiency is **not** significantly different in private companies than in public ones”^{xvii}. Estache has explained (pers. comm.) that the difference was due to using ‘better’ econometric filters. A study of towns in Cambodia found that consumer satisfaction and service continuity was higher (however prices were higher and not affordable for all), although the privatised towns had been selected by the operators and so may have been better performing anyway^{xviii}

The picture is similar in respect of operators in OECD countries. Most recently, a Brookings Institute paper in 2005 looked at public and private water operators in the USA in terms of regulatory compliance and household expenditure on water.^{xix} It found that “when controlling for water source, location fixed effects, county income, urbanization, and year, there is little difference between public and private systems.”

Conclusion: No Evidence for Superior Private Sector Efficiency

This evidence points strongly to the conclusion that there is no systematic intrinsic advantage to private sector operation in terms of efficiency. Equally, there is no evidence to assume that a public sector operator is intrinsically less efficient and effective. Policy discussions should therefore be based on a strictly neutral assumption about relative efficiency, and in particular not regard introduction of private sector operation as a desirable or valuable objective. Otherwise policy decisions risk being distorted and leading to costly economic and social consequences.

Although the great majority of urban water supply is provided by public sector operators, research and policy debate continues to focus heavily on various forms of private sector provision. The UK’s DfID, for example, have just completed a 2-year research project into the non-multinational private sector, whose actual role in water supply provision, globally, is negligible. The World Bank Netherlands Water Partnership has financed intensive study on the possibilities of franchising, a form of business organization which was previously virtually unknown in water supply. The World Bank has carried out a study on the possibilities of public sector operations, but two-thirds of their selected cases included some form of private sector participation. This failure to study public sector water supply is especially damaging against the background of the MDGs: if they are to be attained, it will be overwhelmingly through public sector operators.

Notes

ⁱ International Monetary Fund Public-Private Partnerships March 12, 2004
<http://www.imf.org/external/np/fad/2004/pifp/eng/031204.htm>

ⁱⁱ Ibid para 25

ⁱⁱⁱ Wall Street journal 21 July 2003 The World Bank as Privatization Agnostic

^{iv} Centre on Regulation and Competition, Paper No. 22 The Relative Performance Of Public And Private Enterprise Under Conditions Of Active And Passive Ownership. Johan Willner and David Parker October 2002
<http://www.competition-regulation.org.uk/wpdl149/wp22.pdf>

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- ^{vii} The Great Divestiture. Massimo Florio. 2004. MIT. A paper covering some of the results is available at The Missing Shock: The Macroeconomic Impact of British Privatisation Massimo Florio and Mara Grasseni. *Nota di Lavoro* 104.2004 July 2004
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<http://econ.worldbank.org/files/1175wps2420.pdf>
- ^x [Has private participation in water and sewerage improved coverage?: empirical evidence from Latin America.](#) G Clarke, K Kosec, SJ Wallsten Working paper 04-02 AEI-Brookings Joint Centre for Regulatory Studies January 2004 <http://www.aei-brookings.com/admin/authorpdfs/page.php?id=325>
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http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID651884_code347008.pdf?abstractid=651884&mirid=3
- ^{xii} Water Services in Chile: Comparing Private and Public Performance Gabriel A. Bitrán and Eduardo P. Valenzuela. Public Policy for the Private Sector. No 255 March 2003
<http://rru.worldbank.org/PapersLinks/Open.aspx?id=1998>
- ^{xiii} Kirpatrick, C. D. Parker and Y-F. Zhang (2004), "State versus Private Sector Provision of Water Services in Africa: An Empirical Analysis", University of Manchester, Centre on Regulation and Competition, Working Paper Series, Paper No70, June 2004 <http://www.competition-regulation.org.uk/conferences/southafricasep04/kirkpatrick&parker&zhang.pdf>
- ^{xiv} Estache, A. and Kouassi (2002) 'Sector Organization, Governance, and the Inefficiency of African Water Utilities', *World Bank Research Working Paper 2890*
<http://rru.worldbank.org/Documents/PapersLinks/1453.pdf>
- ^{xv} Water in Asian Cities - Utilities Performance and Civil Society Views. ADB. January 2004
http://www.adb.org/Documents/Books/Water_for_All_Series/Water_Asian_Cities/regional_profiles.pdf
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http://www.worldbank.org/wbi/regulation/pdfs/2152water_asiapacific.pdf . The quote is from the final paragraph.
- ^{xvii} Antonio Estache and Martín A. Rossi: *How Different Is the Efficiency of Public and Private Water Companies in Asia?* World Bank Econ Rev 2002 16: 139-148 . The quote is from the abstract at <http://wber.oupjournals.org/cgi/content/abstract/16/1/139> . The reason for the difference is due to the use of better econometric filters (A. Estache pers. comm.)
- ^{xviii} Should we Bet on Private or Public Water Utilities in Cambodia? Evidence on Incentives and Performance from Seven Provincial Towns Mike Garn Jonathan Isham and Satu Kahkonen (2002) Middlebury College Working Paper Series 0219. <http://ideas.repec.org/p/mdl/mdlpap/0219.html>
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