

From: [Brennan Rory](#)
To: [Goldstiver Mary:](#)
Subject: FW: Infrastructure Australia/
AECOM Report on Regional Water Quality and Security - LGSA Comments [SEC=UNCLASSIFIED]
Date: Friday, 25 March 2011 14:55:00
Attachments: [LGSA, Submission to Productivity Commission Inquiry into Australia's Urban Water Sector, \(2010\).pdf](#)
[LGSA, Supplementary Submission to Productivity Commission Inquiry into Australia's Urban Water Sector, \(2011\).pdf](#)

From: Infrastructure Australia
Sent: Friday, 25 March 2011 2:53 PM
To: Brennan Rory; Short Alicia
Subject: FW: Infrastructure Australia/AECOM Report on Regional Water Quality and Security - LGSA Comments [SEC=UNCLASSIFIED]

From: Sascha Moege [<mailto:Sascha.Moege@lgsa.org.au>]
Sent: Friday, 25 March 2011 2:21 PM
To: Infrastructure Australia
Subject: Infrastructure Australia/AECOM Report on Regional Water Quality and Security - LGSA Comments

Dear Sir/Madam

I write to provide the Local Government and Shires Associations of NSW' comments on the report prepared for Infrastructure Australia by AECOM entitled *Review of Regional Water Quality & Security* ("AECOM Report").

The Associations have identified significant shortcomings in the AECOM Report that raise serious doubts over its credibility and its value in contributing to improving water supply and sewerage services in regional NSW. These shortcomings include:

- A significant number of factual errors and conclusions that appear to be incongruous and/or not supported by evidence; and
- Policy recommendations on governance structures that lack sound, evidence based analysis and do not adequately take account of significant research and consultation undertaken in NSW during the *NSW Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW*.

Please find attached the Associations' first submission and supplementary submission to the Productivity Commission Inquiry into Australia's Urban Water Sector. The supplementary submission contains a detailed critique of the AECOM Report. The first submission explains why and how Local Government can best deliver water supply and sewerage services in regional NSW.

Regards

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Local Government
Association of NSW



Shires Association of NSW

SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO AUSTRALIA'S URBAN WATER SECTOR	
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DATE	<i>November 2010</i>
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1. Introduction

The Local Government Association of NSW and Shires Association of NSW (the Associations) are the peak bodies for NSW Local Government.

Together, the Associations represent all the 152 NSW general-purpose councils, the special-purpose county councils and the regions of the NSW Aboriginal Land Council. The mission of the Associations is to be credible, professional organisations representing Local Government and facilitating the development of an effective community-based system of Local Government in NSW. In pursuit of this mission, the Associations represent the views of councils to NSW and Australian Governments; provide industrial relations and specialist services to councils and promote Local Government to the community.

The Associations thank the Productivity Commission for the opportunity to make a submission to its Inquiry into Australia's Urban Water Sector.

Local Government plays an important role in water management and in the provision of water services to the community.

Councils use water for their business activities and community services and continuously aim to improve the efficient use of this scarce resource.

In regional NSW, councils also provide water supply and sewerage services including ensuring supply security through infrastructure provision, demand management and integrated water cycle management. There are currently 106 local water utilities providing water supply and sewerage services to communities in regional NSW, including 97 council-owned and operated local water utilities, four water supply county councils, and one water supply and sewerage county council. Local water utilities service over 1.8 million people – approximately 30% of the state population.

The provision of water supply and sewerage services is a significant responsibility often making up a quarter or more of councils' annual budget and employing a significant number of their workforce. Water supply and sewerage services are an important element of communities' understanding of and involvement in Local Government as a "one stop shop" to access essential services and deal with local issues. Local water utilities also have flow on effects on local and regional economies and employment.

The first part of the submission provides comments on the institutional and regulatory framework for the delivery of urban water services. This part focuses on why Local Government is best placed to deliver safe and secure water supply and sewerage service in regional NSW and brings to the Commission's attention the current NSW Government inquiry into the institutional and regulatory framework for local water utilities in regional NSW.

The second part of the submission outlines the Associations' position in relation to the introduction of market mechanisms and competition in the urban water sector and raises some concerns about the regime for private sector entrants and public network access recently introduced in NSW (*Water Industry Competition Act (NSW) 2006*).

The third part of the submission showcases a number of examples of Local Government achieving best practice in water management and conservation and in the provision of water supply and sewerage services.

2. Institutional and regulatory framework

Local Government water utilities in NSW are successful in delivering safe and secure water supply and sewerage services to its communities. This is demonstrated by the achievements in implementing best practice as well as the outcomes of the NSW Government's Inquiry into Local Water Utilities.

Best practice

Under the NSW Office of Water's *Best Practice Management of Water Supply and Sewerage Guidelines 2007*, local water utilities are required to achieve best practice including determination of levels of service and pricing levels based on long term strategic business planning and cost recovery principles. Local water utilities operate as separate business units and expenditure and income streams are ring-fenced from those of other council activities.

The NSW Office of Water monitors and reports on performance of local water utilities in its annual *NSW Water Supply and Sewerage Performance Monitoring Report*. Local water utilities have continuously improved best practice management and made significant progress in their adoption of the criteria of best-practice management identified in the best practice guidelines including:

- 89% of local water utilities have sound strategic business planning in place covering 98% of the connected properties in their area of operation;
- 96% of utilities achieve full cost recovery for water supply and 97% for sewerage;
- The economic real rate of return for water supply and sewerage was 0.6% (median of 0.3% for water supply and 1.1% for sewerage). This figure is higher than country Victoria but lower than the capital city utilities; and
- 68% of local water utilities have commenced integrated water cycle management (IWCM) evaluation or strategy; with 46 utilities having completed an IWCM evaluation and 26 of which having also completed an IWCM strategy.¹

The 2008-09 performance report also acknowledges the continuing efforts to minimise the typical residential bill, which for water supply and sewerage is \$900 per assessment (Jan 2010\$), an increase of a total of 2% in real terms over the past 14 years. At the same time, 99% of the 20,700 samples tested for E. coli comply with the *2004 Australian Drinking Water Guidelines*; with 88% of local water utilities complying with these guidelines. Average annual residential water supplied is a low 175 kilolitres per property, which is 47 percent lower than that in 1991. This reduction is mainly due to strong pay-for-use water pricing signals with a median water usage charge of 150 cents per kilolitre together with implementation of water conservation and demand management measures by the utilities. In addition, the water restrictions imposed by 61% of utilities as a result of severe drought conditions have contributed to this outcome.

The excellent performance of NSW local water utilities in achieving efficient water use and avoiding real increases in their typical residential bill has also been acknowledged in the National Water Commission's *National Performance Report 2008-2009 - Urban Water Utilities*.

According to the report, real water and sewerage prices [in Australia] had increased in recent years to fund increases in operating and capital expenditure with the exception of non-metropolitan NSW, where the typical residential bill for water supply and sewerage had reduced slightly over the past 13 years.² Further, the report states that in NSW, metropolitan utilities (Sydney Water and Hunter Water) had reduced their residential water supplied by 1% [over the 4 years] since 2005-06, while regional utilities [27 utilities reporting in the report] had reduced theirs by 11% reflecting the requirement for regional utilities to comply with the NSW Government's *Best-Practice Management of Water Supply and Sewerage Guidelines*, which encourage implementation of a broad range of demand management and water pricing measures.³

Inquiry into Local Water Utilities

In 2007, the NSW Government commenced an inquiry into the provision of water supply and sewerage services by council owned and operated local water utilities in regional NSW.

¹ NSW Office of Water, *2008-09 NSW Water Supply and Sewerage Performance Monitoring Report*.

² National Water Commission and Water Services Association of Australia, *National Performance Report 2008-2009 - Urban Water Utilities*, page 24.

³ *Ibid*, page 16.

The purpose of the inquiry is to identify the most effective institutional, regulatory and governance arrangements for the long term provision of water supply and sewerage services, and to ensure these arrangements are cost-effective, financially viable, sustainable, optimise whole-of-community outcomes and achieve integrated water cycle management.

The inquiry was undertaken by an independent panel, comprising the former NSW Deputy Premier, The Hon Ian Armstrong OBE, and the former head of the NSW Premier's Department, Dr Colin Gellatly. The panel reviewed more than 140 submissions, including a submission from the Associations, and conducted public hearings throughout NSW during which it heard presentations from more than 115 stakeholders.

The inquiry's final report, released in January 2009, confirmed that institutional and regulatory arrangements should maintain Local Government responsibility for the operation and management of water supply and sewerage services and Local Government ownership of water supply and sewerage infrastructure and recommended models for improved regional cooperation. In summary, the recommendations of the inquiry included:

- Formation of 32 regional groupings out of the current 107 local water utilities, including some bigger utilities that remain as they are (stand-alone utilities).
- Two structural models for the governance of groupings that do not remain as stand-alone utilities: a binding alliance model comparable to a strategic alliance of councils but with mandatory membership and a corporation owned by member councils.
- That the function of groupings would be mainly strategic business planning (incl. asset management) and regional water planning; a takeover of operational functions or infrastructure was not recommended.
- Mandatory regulation (based on current best practice guidelines) including mandatory pricing regulation (charges based on proper business plan, oversight by independent body).
- Mandatory risk management according to Australian Drinking Water Guidelines.

The Associations strongly believe that to ensure an integrated and locally appropriate approach to water supply and sewerage management and achieve optimal whole-of-community outcomes for local communities, it is crucial that institutional and regulatory arrangements maintain Local Government responsibility for the operation and management of water supply and sewerage services and Local Government ownership of water supply and sewerage infrastructure.

The Associations acknowledge that regional solutions might be required to share professional resources, undertake catchment-based water supply and demand planning and potentially plan, fund and deliver infrastructure necessary to provide secure, safe and efficient regional water supply and sewerage services over the long term. However, regional solutions do not require the removal of water supply and sewerage functions from Local Government. They can be achieved through appropriately structured regional alliances of councils which maintain Local Government responsibility and ownership. This model captures the benefits associated with regional planning without having the disadvantages of institutional settings where water supply and sewerage functions are removed.

Therefore, the Associations support a binding regional alliance model as a preferred model to facilitate regional cooperation and resource sharing, improve local water utilities' capacity to meet best practice requirements, and coordinate member councils' strategic business planning. A detailed illustration of the regional alliance model supported by the Associations is provided in appendix 1

Furthermore, institutional reform, particularly reform that would remove water supply and sewerage functions from Local Government, need to be thoroughly assessed against the impacts it might have on the financial sustainability of councils and on local and regional economies and employment. Water supply and sewerage services are a major part of most regional councils' operations. They contribute to a critical mass of responsibilities that make councils financially viable and attractive for skilled professionals. In many councils, especially in smaller rural council, water supply and sewerage services are a significant part of engineers' and senior officers' workload. Employees are often multi-skilled and shared between general purpose functions and water supply and sewerage functions

providing for efficient workforce flexibility. Removal of water supply and sewerage functions from councils would eliminate these synergies effects and result in the departure of professional staff due to insufficient workload and challenges or because their services become unaffordable for councils. Loss of operations and staff in councils would have serious direct and flow-on effects on small communities and the affected families, particularly in rural areas where councils are often the largest employer.

Finally, given the geographic, demographic, climate related and socio-economic diversity in regional NSW and the resulting differences in water resource and demand profiles, it is important to recognise that a "one size fits all" approach to providing water supply and sewerage services will not be appropriate. Local Government is best placed to identify local requirements and community preferences and should therefore have the autonomy to establish solutions that suit their local/regional circumstances.

During the inquiry, the Associations established a number of principles for the delivery of water supply and sewerage services in regional NSW as follows:

PRINCIPLES FOR THE DELIVERY OF WATER SUPPLY AND SEWERAGE SERVICES IN REGIONAL NSW

1. Institutional arrangements should maintain Local Government responsibility for the operation and management of water supply and sewerage services and ownership of water supply and sewerage infrastructure as they are most effective in achieving whole-of-community outcomes and integrated water cycle management, utilise efficiency of economies of scope, and so allow for sustainable, locally appropriate long term strategic planning and service provision.

Whole-of-community outcomes

In order to achieve whole-of-community outcomes, the priorities and needs of a wide range of community stakeholders need to be balanced taking into consideration the economic, social and environmental impacts associated with those priorities and needs as well as the availability of resources to achieve them.

To undertake this balancing act an integrated approach to strategically planning for and delivering all community services is essential. Evidently, such an approach also needs to be responsive to the needs and priorities of local communities.

Being responsible for a wide range of community services and functions, Local Government already allows for such integrated strategic planning. Also, Local Government is best placed to manage local services and facilities because they are closest to the community and understand local issues and priorities.

Maintaining the integration of water supply and sewerage functions with other general purpose functions of councils ensures that strategic planning for water supply and sewerage operations and infrastructure is part of such an integrated planning framework and that objectives specifically related to water supply and sewerage are determined within the broader context of ecological, social and economic sustainability. For example, Local Government will most effectively:

- *Coordinate strategic land use planning and strategic planning for water supply and sewerage operation and infrastructure (e.g. water sensitive urban design, see below);*
- *Coordinate water supply and sewerage operations and infrastructure with economic development priorities;*
- *Coordinate water demand management with the local supply and demand profile as well as local and catchment-wide environmental objectives; and*
- *Coordinate water supply and sewerage operations and infrastructure with the provision of other council operations that are major water users; e.g. parks and reserves, aquatic leisure centres, airports, showgrounds, and caravan parks.*

These desirable benefits would be much more difficult to achieve in an institutional setting where strategic planning for and delivery of water supply and sewerage operations and infrastructure were removed from Local Government. Separate water utilities, let alone entities in a disaggregated sector, would struggle to facilitate integrated planning due to a lack of direct involvement in the strategic community planning process and access to the powers of both the Local Government Act (NSW) 1993 and the Environmental Planning and Assessment Act (NSW) 1979. Also, decision makers in water supply and sewerage entities which are completely removed from Local Government might not have the incentive to look beyond their business objectives and aim to achieve whole-of-community outcomes. Only council-owned and operated water utilities also provide for true integration with other general purpose functions such as stormwater management, land use planning and control, economic development, and environmental management.

Integrated water cycle management

Increasing efforts are now being made to implement the concept of integrated water cycle management and its sub-component water sensitive urban design to minimise the impacts of urban development on the water balance and the environment and to help address water scarcity by diversifying supply options and conserve water.

Local Government across regional NSW, because of the integration it affords to particularly strategic water supply planning, water supply and sewerage provision, stormwater and drainage management, strategic urban planning, and land use development control, is best placed to put this concept into reality.

Whereas traditional water management used to look at each component of the urban water system in isolation, integrated water cycle management combines all aspects of the urban water cycle (water supply, sewerage, stormwater, conservation, recycling, pollution prevention, flood control etc) and related aspects such as energy consumption related to water supply and treatment to ensure that water is used optimally for urban development as well as within the natural water catchment. Integrated water cycle management does not only require integration of the various elements of the water cycle but also integration with strategic urban planning and land use development controls.⁴

Water sensitive urban design applies the principles of integrated water cycle management in the built environment and focuses on on-site residential and commercial developments. Examples of water sensitive urban design include rainwater tanks, recycling, greywater, and stormwater harvesting schemes.

Institutional models that result in the removal of water supply and sewerage functions from councils have the potential to severely disrupt the integration that currently exists, inevitably leading to reduced capacity to implement integrated water cycle management and water sensitive urban design.

For example, the implementation of elements of water sensitive urban design that are intrinsically linked to urban and land use planning, such as stormwater harvesting for water supply, greywater reuse, or rainwater tanks, becomes increasingly difficult for an entity that is removed from the land use planning and control processes.

Vertical disaggregation of a separated water supply and sewerage sector into bulk supply, treatment, distribution, and retail function would only further reduce the capacity to implement integrated water cycle management. For example, the multi-layered model envisaged for South East Queensland appears to be too mechanistic and, because of barriers between the layers of entities, could actually prevent integrated water cycle management

⁴ National Water Commission, Institutional and Regulatory Models for Integrated Urban Water Cycle Management, Issues and Scoping Paper, (2007), page 15.

Economies of scope

Associated with the integration of water supply and sewerage function and other general purpose functions are economies of scope resulting in real cost-efficiency gains.

In economic terms, economies of scope occur if it is cheaper for one entity to provide a range of services together (i.e. water supply and sewerage services and other general purpose services), than for each of the services (e.g. water supply and sewerage services) to be provided by separate entities. Economies of scope may arise from integration of technical, managerial and administrative resources.

In council-owned and operated water utilities technical and managerial synergies arise from the integration of engineering, asset management and corporate planning system for water supply and sewerage, roads and transport, communication, waste management, or recreational services. Economies of scope also arise from the ability to effectively and efficiently coordinate strategic land use planning and land use development control with infrastructure intensive services such as water supply and sewerage services as well as private commercial and residential related investment into water solutions. Furthermore, the broad range of services provided by general purpose councils, affords the range of responsibilities required to attract highly professional staff and benefit from their skills and knowledge which would otherwise not be available.

In administrative terms, economies of scope arise from the integration of information technology services, or the ability to provide one billing and customer service system for all community services.

Large, stand-alone water supply and sewerage providers may well achieve some economies of scale, however cannot capture the identified economies of scope. Benefits commonly associated with water utilities covering larger regional areas such as catchment-based, regional strategic water supply and demand planning and infrastructure delivery could equally be achieved through regional alliances of councils without losing the economies of scope associated with the integration of water supply and sewerage functions and general purpose functions.

2. Governance arrangements need to ensure decision makers are accountable to the communities that are to benefit from and fund the provision of water supply and sewerage services as well as for the achievement of broader whole-of-community outcomes.

Best practice governance generally refers to a decision making process that has clear objectives, allows for the consideration of relevant stakeholder interests, and provides for well-aligned incentives and the absence of conflict of interest for decision makers. In relation to the provision of essential community services such as water supply and sewerage services, best practice requires clear accountability of decision makers to the communities served as well as for the achievement of broader whole-of-community outcomes.

Local Government provides such a framework of clear accountability. Democratically elected councillors are responsible for the setting of strategic direction for councils' operations in order to achieve desired whole-of-community outcomes including outcomes related to water supply and sewerage provisions. Furthermore, maintaining water supply and sewerage services as visible and accessible local operation within Local Government also contributes to accountability within the community and provides incentives for the provision of reliable customer service and serviceability.

Structural models that remove responsibility for water supply and sewerage services from Local Government, and thus from elected local representatives, must necessarily address how decision makers would be accountable to the communities that are to benefit from and fund the provision of water supply and sewerage services. It is questionable whether such models can provide the appropriate incentives to ensure that decision makers integrate water supply and sewerage objectives into broader whole-of-community outcomes and sustainability principles.

Another issue in relation to governance arrangements is the trend to populate decision making bodies with independent, external persons. An example is the proposed Central Coast Water Corporation where only a minority of board members can be appointed from the councillors and employees of the constituent councils (section 12 of the Central Coast Water Corporation Act (2006) NSW).

Independent, external persons have only a limited accountability to the community and the disadvantages associated with such limited accountability need to be outweighed by the benefits of having "externals" on the decision making body.

It is often argued that the benefits of allowing externals on decision making bodies is to access the expertise, knowledge and perceived "objectivity" of independent experts and professionals. However, the conflict between accountability and access to independent expertise can be resolved satisfactorily without distorting the clear accountability provided in councils. An institutional setting that allows for and encourages regional alliances would enable councils to involve experts and professionals in the decision making process of the regional alliance in appropriate ways and where they are needed. Resource sharing arrangements within the regional alliance model could also provide the resources to make expert services more accessible and affordable for councils.

3. Decision making with regards to water pricing needs to be socially, environmentally and economically sustainable, responsive to local community needs, and flexible to enable local water utilities to respond to changing circumstances. Pricing decisions should continue to be guided by the best practice pricing policies required by the Department of Water and Energy.

Pricing for water supply and sewerage service is an important consideration in the determination of whole-of-community outcomes. It is essential to ensure that pricing decisions are responsive to community needs, based on local water supply and demand profiles, and integrate water supply and sewerage objectives into broader whole-of-community outcomes and sustainability principles.

Pricing decisions should continue to rely on the well-tested best practice pricing policies provided by the economic regulator; the NSW Office of Water. The office's Best-Practice Management of Water Supply and Sewerage Guidelines are based on general principles established by the Independent Pricing and Regulatory Tribunal NSW (IPART) and gazetted under the Local Government Act (NSW) 1993.

Pricing principles should be based on cost recovery considerations (i.e. the recovery of the long term operational and capital cost of providing water supply and sewerage services).⁵ The Associations also support water utilities being provided with the option to send stronger pricing signals to customers to encourage water conservation and demand management and facilitate the implementation of integrated water cycle management strategies.

The Associations support a process of external audit of price determination by council auditors instead of price determination by a regulator (e.g. IPART).

4. Regulatory arrangements need to be improved to avoid regulatory duplication, inconsistency and conflict; regulatory arrangements should facilitate integrated water cycle management and encourage regional solutions/models to facilitate catchment based-planning and water resource sharing arrangements among utilities.

Within the current regulatory framework there is scope to better coordinate regulation in relation to health, environmental, economic and land use planning objectives and set clear regulatory responsibilities to avoid duplication and inconsistency and resulting confusion and inefficiencies. It is often difficult for local water utilities to keep up with regulatory objectives and requirements, particularly when responsibilities of agencies overlap.

⁵ It is noted that full cost recovery does not require a return on existing rural water assets, although it does require provision for future asset refurbishment or replacement.

A significant number of agencies are currently involved in the administration of a range of regulation relevant to water supply and sewerage including:

- *Department of Health – regulates and monitors water quality in reticulated water supplies, including fluoridation of water supplies;*
- *NSW Office of Water – regulates water supply extractions and volumetric entitlements, including water sharing plans and monitoring of waterways;*
- *Catchment management authorities – responsible for implementation and funding of catchment activity plan;*
- *Dam Safety Committee – responsible for surveillance and monitoring of prescribed dams for both water supplies and regulated waterways;*
- *NSW Office of Water - responsible for approvals pursuant to section 60 of the Local Government Act (NSW) 1993, main regulator of the sector through the Best Practice Management for Water Supply and Sewerage Guidelines, performance reporting through the Water Supply and Sewerage NSW Performance Monitoring Report, management of the Country Towns Water Supply and Sewerage Program;*
- *Independent Pricing and Regulatory Tribunal – review of Developer Charges Guidelines for Water Supply, Sewerage and Stormwater; and*
- *Department of Local Government – responsible for compliance with Local Government Act (NSW) 1993 and ensuring the implementation of proper governance in the industry.*

Recent examples of regulatory inconsistency and confusion include:

- *Inconsistencies between the two prominent initiatives of Integrated Water Cycle Management (IWCM), an essential component of the NSW Government's Best-Practice Management of Water Supply and Sewerage Guidelines, and the Building Sustainability Index (BASIX), a state-wide, government requirement for houses and units to achieve certain energy and water consumption reduction targets (e.g. potential for BASIX targets, to override more stringent locally appropriate water conservation and demand management measures as identified by local water utilities in their integrated water cycle management plans; potential for BASIX to limit the options developed in IWCM plan (e.g. rainwater tanks are being encouraged in areas where they may prove to be a less effective option than other initiatives and can be a costly burden to developers, consumers and potentially to council owned water utilities should they be required to finance future rainwater tank rebates)*
- *Confusion around the issue of load based licensing and reuse versus effluent credits for river discharge; and*
- *Confusion among agencies about the regulatory requirement and objectives in relation to the issue of non-connection of development to urban water and sewerage services.*

Further, the Associations believe that the basis for any regulatory arrangement should be the continued implementation and improvement of the existing best practice framework; i.e. Best-Practice Management of Water Supply and Sewerage Guidelines produced by the NSW Office of Water.

Beyond existing regulatory objectives, regulatory arrangements could encourage the wider application of regional alliance models and provide mechanisms for improved coordination between the stakeholders involved in catchment-wide natural resource management and integrated water cycle management. This would, where appropriate, enable councils to truly contribute to regional, catchment-wide strategic water supply and demand planning. For example, submissions have raised the possibility of water sharing arrangement among members of regional alliances and the regulatory framework should provide local water utilities with the option to do so.

5. To ensure local water utilities throughout regional NSW have the financial capacity to provide the level of water supply availability and security and sewerage treatment that is required by the community, a permanent State Government infrastructure funding program should accompany

efforts by the sector, such as regional alliances, to facilitate resource sharing and regional infrastructure provision.

Financial self-sufficiency means that water supply and sewerage providers have available sufficient own-source income to fund operational and capital requirements for the provision of water supply and sewerage services over the long term; i.e. without financial support from governments in the form of subsidies or other resources.

Related to the requirement of financial self-sufficiency is the concept of cross subsidisations among areas to enable utilities to achieve, in a financially self-sufficient manner, similar service levels for similar prices in areas of different cost structures. It needs to be noted that the concept of cross subsidisation already exists on a small scale where small towns and villages in an individual council area are provided with a level of water supply and sewerage services they could not afford by themselves. Facilities in such small villages can only be funded through the revenue generated in the whole area covered by the water utility.

However, large scale cross subsidisation by large regional water utilities (which are, due to their size, necessarily separated from Local Government) is not desirable because they eliminate all the benefits of Local Government integrated services provision (e.g. whole-of-community outcomes, locally appropriate solutions, water sensitive urban design and decentralised solutions).

Many existing local water utilities in regional NSW are financially self-sufficient and it is therefore doubtful whether there is a need to restructure the whole sector. Most local water utilities achieve positive real rate of return based on recently undertaken fair value revaluation of assets. At worst case, the economic real rate of return is slightly negative for a handful of councils implying that the revenue raised is only just insufficient to renew water supply and sewerage infrastructure in the long term by no more than a few percent.

However, in light of the challenges posed by drought, climate change and skills shortage, some smaller local water utilities in rural and remote regions might not have the capacity to renew or modernise existing or construct new water supply and sewerage infrastructure. Regional alliances can help address these financial challenges through resource sharing and financial coordination to and support by all member councils for regionally appropriate water supply and sewerage solutions. However, regional circumstances will dictate what is achievable and in some regions, particularly in rural and remote regions, communities might not be able to afford the desired level of water supply and sewerage service even from a regional perspective.

It is also questionable whether water utilities should be required to solely depend on internal cross subsidisation or whether horizontal equalisation objectives such as equal supply security, demand restrictions and achievement of comprehensive health and environmental standards, are more appropriately achieved through subsidies funded from a broader base such as general taxation income.

To ensure local water utilities throughout the whole of regional NSW can provide safe secure water supply and sewerage services, the Associations support the retention of a permanent funding program to provide technical and financial assistance to local water authorities for the renewal and enhancement of water supply and sewerage infrastructure in areas of need.

3. Competition

The Associations do not object in principle to the introduction of competition and market mechanisms in the urban water sector. However, any proposals to introduce competition must clearly demonstrate that the benefits of competition in a given market will outweigh the costs; i.e. that competition is in the net public benefit. While the private sector plays a role in the urban water market (e.g. as contractor or consultant), it needs to be noted that competition in the provision of urban water supply and sewerage services has been untried in Australia and internationally and the ramifications of the introduction of market mechanisms are as yet unknown. Therefore, the Associations emphasises the need for caution

in implementing market mechanisms and call for an ongoing and robust process to be put in place to review the introduction of any new market elements.

The LGSA rejects any form of privatisation of local water supply and sewerage utilities in NSW, either as privatised, vertically integrated monopoly providers or as privatised entities within a disaggregated sector, because of the direct conflict between whole-of-community objectives of service provision, demand management and water conservation, and profitability requirements of the private sector.

Private Sector licensing and network access in NSW - Water Industry Competition Act (NSW) 2006

The Associations have a number of concerns about the licensing and access regime that recently commenced in NSW under the *Water Industry Competition Act (NSW) 2006*. The regime facilitates private sector entry into the provision of water supply (potable or non-potable) or sewerage services by means of any water industry infrastructure.⁶

An important concern of the Associations about this new regime relates to how the risk of financial or operational failure of a private service provider or physical failure of a private supply source will be addressed. It is likely that public water utilities, including local water utilities, will be declared supplier of last resort; i.e. being responsible for stepping in if the private operator/source fails. This raises a number of issues for local water utilities including how to share the cost associated with contingency planning and making contingency provisions as well as the cost associated with having in place the technical capacity to step in. More research and policy development is required before supplier of last resort schemes can be introduced.

Another concern of the Associations relates to the coordination of the new regime with the land use planning and development control system. Currently, the construction and operation of some private water infrastructure will require Local Government approval under *section 68 of the Local Government Act (NSW) 1993* as well as a licence under the *Water Industry Competition Act (NSW) 2006*. However, it is expected that, in the future, water infrastructure requiring a licence would be exempt from the section 68 approval regime. Clarification is required as to how the new regime will ensure that the licensed activity is consistent with councils' land use planning policy and instruments and local water utilities' integrated water cycle management plans.

4. Local Government water management and water conservation activities

The following section showcases a number of examples of how Local Government contributes to best practice in water management and conservation:

Annual Water Management Conference

The Associations organise and hold an annual water management conference providing a forum for discussion on urban water supply and sewerage as well as broader water management issues. The event attracts up to 250 delegates from NSW and interstate, including councillors and council general managers, water managers and professionals, policy makers from government agencies, and key industry stakeholders. This conference enables Councillors and council professionals to be up to speed with and apply latest developments in water management and conservation.

Water Loss Management Program

The Water Loss Management Program is a joint initiative of the Associations and the Water Directorate NSW in partnership with the Australian Government. The program supports councils' local water utilities in their efforts to reduce leakage from their drinking water distribution systems by providing specialist knowledge, equipment and financial assistance to help councils identify, develop and implement water saving projects.

⁶ The regime also provides for access to distribution networks of public water utilities. The access regime currently only applies in the area of operation of Sydney Water and Hunter Water.

The program, which commenced in the financial year 2006/07, is funded by the Australian Government's Water Smart Australia program to the amount of \$7.38 million providing funding to councils of up to 33% of the costs of projects directly related to water loss reduction. The remaining project funding is made up by councils. The Australian Government also provides funding for the program management (including staff cost) with some contributions in kind by the Associations and the Water Directorate. The program is managed by a team based within the Associations.

Currently, more than 80 councils participate in the program with expected total water savings of about 7 GL per annum.

Orange City Council – Blackmans Swamp Stormwater Harvesting Scheme

Orange City Council's Blackmans Swamp Stormwater Harvesting Scheme represents the first large scale, indirect-to-potable stormwater harvesting project in NSW, if not Australia. The scheme is capable of providing between 1300-2100ML of additional water into the Orange's raw water supply each year from the city's stormwater system, meeting up to 40 per cent of the city's total water needs.

The scheme is as a new and innovative approach to augmenting water supply through capturing urban stormwater flows. It is the largest potable stormwater reuse system in Australia and has won several industry awards. The scheme is also a remarkably successful exercise in public communication and education, with the community willingly accepting reused stormwater for their drinking supply.

CENTROC Water Study

Responding to a decade of drought and calls from communities across Central NSW, the Central NSW Councils Regional Organisation of Councils (CENTROC) undertook a comprehensive water security study aiming to provide a strategy for the sustainable assurance of water security across the region of 16 member councils over the next 50 years.

The Study addresses:

- The likely impact of climate change of the availability of water resources under different climatic scenarios;
- Approaches to the management of water resources by all water users in the region, including the irrigation and mining sector, and the provision for environmental flows; and
- Best practice in water conservation and management and the role of water savings and demand management.

Among other things, the study provides advice on infrastructure augmentation in Central NSW to improve water security for the communities served by member councils. It recommends large scale infrastructure solutions, including a core regional supply and distribution network to provide for the supplementary water requirements and a number of pipeline connections. The study also makes recommendations with regards to demand management and best practice management for water utilities. CENTROC is now in the process of considering options for co-operative programming across its members to implement the recommendations of the study.

Coffs Harbour City Council and Clarence Valley Council Regional Water Strategy

To improve supply security to meet the future needs of the area and to achieve improvements in water quality and environmental flow protection, Coffs Harbour City Council and Clarence Valley Council adopted a joint Regional Water Supply Strategy in July 1997 which includes build and non-build components.

The build approach involves 87 kilometres of pipelines connecting reservoirs with Coffs Harbour's Karangi Dam and the new Shannon Creek Dam. Shannon Creek Dam will secure bulk raw water supply until at least 2030. Current storage is around 65% capacity, holding around 19,000 ML, which is already three times the storage available in Karangi Dam.

The non-build strategy focuses on water efficiency initiatives and also introduced a cap on water extraction from the Nymboida and Orara River resulting in much improved environmental flows. The

efficiency program has won numerous awards and is an ongoing implementation of the Regional Water Efficiency Strategic Plan (WESP). The WESP has involved extensive communication with the community and reduces the need for a much larger storage. The program includes the introduction new water efficiency initiatives such as the *WaterWise Schools* program for local school education and endorses existing strategies such as water restriction policies, drought management, rebates for water saving devices, integrated water cycle management, reclaimed water and stormwater reuse.

5. Conclusion

As short concluding remarks the Associations would like to reiterate the important role Local Government plays in managing water and providing water supply and sewerage services. The Associations call on all levels of government to continue to work with and support councils in their pursuit of best practice water management and conservation.

| In relation to water supply and sewerage service provision in regional NSW, the Associations support institutional and regulatory arrangements that maintain Local Government responsibility for the operation and management of water supply and sewerage services and Local Government ownership of water supply and sewerage infrastructure. The Associations believe that this is crucial to ensure an integrated and locally appropriate approach to water supply and sewerage management and optimal whole-of-community outcomes for local communities.

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Appendix 1 – The binding alliance model

This appendix outlines the separation of functions between member councils and the alliance in the binding alliance model as proposed in the submission. The Associations advocate a binding alliance model where:

- Resource sharing and skills pooling are undertaken by an alliance membership of which is binding;
- Best Practice Guidelines become mandatory regulations for each council, and
- Compliance with regulation is properly audited by external auditor or the alliance.

Functions of the alliance

In the alliance model proposed by the Associations, the main function of the alliance is to facilitate resource sharing and skills pooling among member councils and provide skills and knowledge to assist member councils in undertaking strategic business planning and satisfying regulatory requirements. The alliance would also coordinate and guide strategic business planning by member councils, particularly where there are benefits in regional solutions (e.g. regional supply solutions). To enable the alliance to perform this function, it should develop a regional integrated water cycle management strategy, outcomes of which would inform the member councils' planning. However, the alliance has no power to direct member councils' strategic business planning process, including pricing decisions.

The alliance could also be responsible for auditing strategic business planning by member councils (including pricing determinations) and compliance with regulations and reporting to the regulator (see below). This audit process would facilitate peer pressure among member council to achieve required service standards.

It needs to be noted that this model does not preclude the alliance, over time and by mutual agreement of member councils, from taking on functions previously performed by member councils and /or being granted the authority to make binding decision for member councils (e.g. management of beneficial regional infrastructure).

Function of member councils

In the alliance model proposed by the Associations, member councils continue to be responsible for the strategic business planning for their utility's area of operation. This includes:

- Determination of service levels for water supply and sewerage services. This determination should:
 - Be based on what service level the community wants and is willing and able to pay for;
 - Be based on local conditions, including hydrological and technical (system) conditions; and
 - Meet mandatory regulatory requirements ("mandatory best practice") as a baseline or minimum standard; i.e. regulatory requirements to ensure appropriate health, water quality, safety, environmental and social outcomes; and
- Determination of operational, recurrent and future capital (infrastructure) requirements to deliver the determined level of service; and determination of charges (pricing) to fund operational and capital requirements based on economic regulations (e.g. full cost recovery, provision for return of, and on, capital).

The strategic business planning process should be subject to an external audit ensuring that assumption and processes are fit for purpose and regulations are complied with. The audit could be undertaken by an external auditor or by the alliance and would form the basis for regulatory oversight by the government.

A good example

A good example of this model is the Lower Macquarie Water Utilities Alliance. This alliance provides assistance to member councils in achieving best practice where required. It is also preparing a regional integrated water cycle management plan to improve regional co-operation.



**SUPPLEMENTARY SUBMISSION TO THE PRODUCTIVITY
COMMISSION INQUIRY INTO AUSTRALIA'S URBAN WATER
SECTOR**

DATE

March 2011

1. Introduction

The Local Government Association of NSW and Shires Association of NSW (the Associations) are the peak bodies for NSW Local Government.

Together, the Associations represent all the 152 NSW general-purpose councils, the special-purpose county councils and the regions of the NSW Aboriginal Land Council. The mission of the Associations is to be credible, professional organisations representing Local Government and facilitating the development of an effective community-based system of Local Government in NSW. In pursuit of this mission, the Associations represent the views of councils to NSW and Australian Governments; provide industrial relations and specialist services to councils and promote Local Government to the community.

The Associations provide a supplementary submission to the Productivity Commission’s Inquiry into Australia’s Urban Water Sector. The supplementary submission contains a critique of the report submitted to the inquiry by Infrastructure Australia and prepared by AECOM entitled *Review of Regional Water Quality & Security* (the “AECOM Report”). The Associations hope that the Commission will be able to consider their supplementary submission in its deliberations on the preparation of the inquiry’s draft report.

2. Comments on the AECOM Report

The Associations strongly question the credibility and value of the AECOM Report for a number of reasons including:

- The report contains a significant number of factual errors and conclusions that appear to be incongruous and/or not supported by evidence; and
- The report’s recommendations on governance structures lack sound, evidence based analysis.

The Associations urge the Commission to be mindful of these shortcomings when considering the AECOM Report.

Factual errors and incongruous/unsubstantiated conclusions

The AECOM Report contains a significant number of factual errors and conclusions that appear to be incongruous and/or not supported by evidence. This raises serious doubts over the credibility and value of the whole report. Table 1 provides a selection of statements containing such factual errors and incongruous and unsubstantiated conclusions.

Table 1: Selection of factual errors and incongruous/unsubstantiated conclusions in AECOM Report.

Statement in AECOM Report	Reference	Comment
<p>“Every utility in Australia supplying more than 50,000 connected properties now reports on a range of performance indicators...”</p> <p>“However, the same cannot be said for smaller water utilities, where performance reporting is patchy and inconsistent.”</p>	Page i	This statement in the executive summary implies that utilities supplying water to 50,000 or less connections did not report on performance indicators. This is incorrect. All NSW Local Government water utilities report on comprehensive performance indicators to the NSW Office of Water under the existing best practice management framework. Utilities with 10,000 or more connections also report to the National Water Commission’s <i>National Performance Report – Urban Water Utilities</i> .

Statement in AECOM Report	Reference	Comment
<p>“Although the situation in other States has not been documented to the same extent [<i>referring to the NSW Inquiry into Local Water Utilities</i>], the restructuring of regional urban water utilities in Queensland and Tasmania over the last five years suggests that there was a strong case for reform. In Victoria, evidence that the small water utilities in that state were unable to consistently supply high quality drinking water was a key driver for sweeping water reform in the latter half of the 1990s.”</p>	Page i	<p>It appears simplistic and inappropriate to deduce a need for reform in NSW from the mere fact that there was reform in Queensland (by the way only in South East Queensland), Tasmania and Victoria. Such conclusion would require comprehensive comparison of the pre-restructuring situation in the states mentioned.</p> <p>The situation prior to and reasons for restructuring in Victoria and Tasmania might have been very different to the current situation in NSW (e.g. more than over 370 utilities (in 1994) in the smaller, more densely populated regional Victoria to current 106 utilities in much larger regional NSW).</p>
<p>“It is important to recognise that these utilities [<i>i.e. smaller regional utilities</i>] are currently operating under increasing external pressures. For many, prolonged drought has been the norm rather than the exception and populations have declined over the past 20 years.”</p>	Page i	<p>Again, a very simplistic comment. Apart from the fact that the AECOM Report only looks at population figures for the towns selected for the report and therefore should refrain from making a general statement about all smaller utilities (whatever AECOM actually means by that), the data do not support this statement. For example, of the 18 NSW towns assed by AECOM (see Volume 2), only 8 experienced population decline and 7 growth; with no data considered for 3 towns. It needs to be noted that Yamba was identified as being in decline despite currently growing at 5% per annum.</p>
<p>“Less than full cost recovery is a common feature of water utilities servicing regional areas.”</p> <p>“...many utilities servicing regional towns are not recouping the costs of supplying water, let alone providing for capital improvements.”</p>	<p>Page i, 8</p> <p>Page ii, 9</p>	<p>This appears to be incorrect for NSW as the majority of Local Government water utilities are required to achieve and do achieve, full cost recovery including recovery of cost of capital works (see the Associations first submission to the Productivity Commission inquiry). Also, the AECOM Report does not include evidence as to whether or not costs are recovered (see the lack of evidence in section 2.2.1).</p> <p>Further, it is important to note that it is entirely normal for utilities, due to exceptional circumstances (e.g. drought) and differences in forecasted and actual revenue, might not achieve full cost recovery in a particular year. The important issue is that costs are recovered when looking at a longer period. Most NSW utilities have a strategic business plan in place that ensures full cost recovery over the long term.</p>

Statement in AECOM Report	Reference	Comment
<p>“Water utilities servicing regional communities struggle to implement and comply with the Australian Drinking Water Guidelines [ADWG] – this is particularly so for smaller water utilities. This is due to:</p> <ul style="list-style-type: none"> • Comparatively fewer human and financial resources, which is being exacerbated by declining population • Relatively lower availability of technical knowledge and expertise • Strong competition for skilled employees in regional areas • Inadequate infrastructure to treat water and preserve water quality • Poor processes for operation and maintenance of existing treatment infrastructure • Lack of reporting and insufficient institutional incentive for utilities to comply with guidelines and licence requirements” 	<p>Page ii, 11</p>	<p>This statement is not supported by evidence. The AECOM Report does not assess compliance of regional water utilities with the ADWG, nor does it refer to any research on this. It merely looks at water quality in a small number of towns.</p> <p>Also, the alleged reasons for non-compliance have not been researched appropriately and, if at all, are only supported by limited anecdotal evidence records of which are not provided (e.g. no research on availability of technical knowledge and expertise; no data on competition for skilled employees, no sound data on adequacy of infrastructure of quality of operation and maintenance processes).</p> <p>It is also unclear what is meant by “smaller utilities”, particularly as the towns examined in the town profiles are not related to the size of the utility they are serviced by.</p>
<p>“A key reason for non-compliance [with ADWG] is the absence of the necessary skills, experience and knowledge in water in many regional communities.”</p>	<p>Page ii, 19</p>	<p>This statement is not supported by evidence. Apart from some anecdotal accounts (uncited), no data is provided on availability of skills, experience and knowledge (see section 2.4.1).</p> <p>The report does not contain any meaningful assessment of the technical and managerial capacity in smaller Local Government water utilities. It would also be questionable whether this can be applied to “many” regional utilities.</p>
<p>The Commonwealth Government has agreed to provide up to \$1.1 million in support of the Strategy [National Water Skills Strategy], however, the program is likely to be ineffective without the institutional reform required to create organisations with the scale to ensure application and maintenance of those skills.</p>	<p>Page ii</p>	<p>There is no evidence provided that the strategy would be ineffective in NSW without institutional reform.</p> <p>This statement inappropriately anticipates the outcomes of a policy analysis on structural/institutional models for the delivery of water supply services; i.e. organisations with larger scale. No comprehensive analysis has been undertaken by the AECOM Report (see below for a discussion on the deficits of the report in analysing structural models).</p>
<p>“Reducing water-related illness in the community will increase workforce productivity due to fewer sick days. Fewer outbreaks of illness will also contribute to lowering healthcare costs.”</p>	<p>Page iii, 20</p>	<p>The reference to outbreaks of water-related illness appears inappropriate. In the context of the section, it creates the impression that there was widespread water related illness in regional Australia. However, the AECOM Report does not support this with any meaningful data on water-related illness. The town profiles in Volume 2 of the AECOM Report include an item on death or illness due to water quality. However, received data appears limited. Of the 101 towns assessed only one town reported an illness incident (Jindabyne 2003). All other towns reported either “no illness” or data was not available (mainly Queensland).</p>

Statement in AECOM Report	Reference	Comment
<p>“Water business related planning is not performed well in regional areas...”</p>	<p>Page iv</p>	<p>This statement is not supported by sound evidence. There is no assessment of water business planning in the AECOM Report apart from the cursory data collected in the town profiles under the item “poor management and governance” (of the 58 towns in Queensland, NSW and Victoria only 4 were identified as having poor management and governance; one Aboriginal Council in Queensland and 3 towns in NSW)</p> <p>In relation to the three towns in NSW, the evidence put forward is cursory and does not look at what management practices are in place:</p> <ul style="list-style-type: none"> • Narrandera (town 34) was identified as having poor management and governance based on the alleged fact that groundwater bores had been installed and abandoned due to high levels of manganese and iron in supply. No source is cited. • Gloucester (town 28) was identified as having poor management and governance based on an alleged incident in 07/08 of faulty equipment rendering some water quality measurement results unusable. • Lithgow (town 23) was identified as having poor management and governance based on the alleged fact that the treatment plant was not maintained adequately and that council had been prosecuted in the Land and Environment Court. Also, the report alleges that there were many community members concerned about the adequacy and quality of water supply. No sources are cited
<p>“Under a model similar to that in Victoria, water quality and security planning could be implemented more efficiently... These outcomes would be achieved because:</p> <ul style="list-style-type: none"> • Larger, regionally significant utilities would be more likely to attract highly skilled water staff, financial and asset management planners • A relatively larger customer base allows utilities to fund capital works with a relatively smaller impact on residential water bills, addressing a key equity concern with full cost recovery by small water utilities • Utilities would be large enough to justify oversight by existing independent pricing regulators, delivering transparency in decision making and greater economic efficiency 	<p>Page iv</p>	<p>This statement/conclusion appears inappropriate. The AECOM Report does not include sufficient research on relative efficiencies of different structural models and, specifically, on comparative efficiencies between Victoria and NSW. The alleged reasons for increased efficiency are not supported by evidence.</p> <p>Research used to support the statement (i.e. Byrnes 2009, see page 31 and 33 of the AECOM Report) was not analysed in terms of:</p> <ul style="list-style-type: none"> • Whether efficiency comparisons took account of differences in demographic (e.g. population density, growth), hydrologic (e.g. water sources and quality), geographic (e.g. distances between towns) and climatic (e.g. rainfall variability) attributes that exist in regional Victoria and regional, particularly western NSW; and • Whether conclusions in Byrnes 2009 on governance are actually supported by the findings.

Statement in AECOM Report	Reference	Comment
Water prices set by Local Government water utilities are not regulated	Page 2 and table 1	This statement is incorrect. Water pricing in NSW is regulated by the <i>Local Government Act (NSW) 1993</i> and the NSW Office of Water through its Best Practice Management Framework.
“...the way in which individual Councils or utilities return treated wastewater to the environment is not well controlled.”	Page 2	This statement is incorrect with respect to NSW. Wastewater discharges in regional NSW are comprehensively regulated and controlled by the Department of Environment, Climate Change and Water (DECCW) who licenses sewerage treatment facilities, after having been the subject of utilities’ integrated water cycle management planning, a development application process through the <i>Environmental Planning and Assessment Act (NSW) 1979</i> , and a approval process under section 60 of the <i>Local Government Act (NSW) 1993</i> through the NSW Office of Water.
“Some regional towns are captured if they are serviced by a larger utility, however, because the reporting is performed at a whole of utility level, or at a regional level. A consequence of this is that poorer levels of service to small towns are often masked by the average service level for the utility as a whole.”	Page 3	This statement is not supported by evidence. The AECOM Report does not demonstrate that poorer levels of service to small towns were often masked by the average service level for the utility as a whole.
“In New South Wales and Queensland, there are more towns within the population range that could not be investigated given time constraints. In those States, towns were chosen for their known or likely water quality and/or security issues. Therefore, it should be noted that the towns investigated are not a standard sample and, as such, the data may be statistically skewed.”	Page 5	An analysis of allegedly “problematic” towns might be interesting but should not form the basis for making wide-ranging policy recommendation on structural reform of the whole sector.
“The relative expense of supplying water infrastructure to small towns often means that capital projects are unviable for the water utility. For example, many small towns are without water treatment because the increase in residential bills to recover the cost would be substantial.”	Page 9	This statement is not supported by evidence. The AECOM Report does not include evidence of unviable capital projects or of how many small towns are without water treatment (see the lack of evidence in section 2.2.1). The statement on the extent of water treatment also appears incorrect when looking at AECOM’s town profiles. Of the 40 Queensland and NSW town profiles in the AECOM Report Volume 2, the majority of towns are identified as having a treatment plant (23); the vast majority have some level of water treatment (35 towns; includes treatment plants). Three towns are identified as not having treatment including one Aboriginal community. For two towns treatment is unknown. All of the latter five towns are located in Queensland.

Statement in AECOM Report	Reference	Comment
“It is clear that consumers value high quality drinking water, because many are willing to pay more than 500 times the reticulated supply price for bottled water (BCA 2006), even though the quality of bottled water may be no better.” <i>[as supporting evidence for “Pricing water in order to recover the full cost of supply is currently difficult to achieve in many regional towns.”]</i>	Page 9	This statement is inappropriate and misleading in the context of the AECOM Report. There appear to be many other reasons why people would value bottled water (e.g. transport convenience). Also, it is misleading to indicate that people would be willing to pay the price of bottled water for the water supply they use for cooking, general hygiene etc. We believe not many people fill their bathtub with bottled water.
“However, under current pricing practices, funds are transferred from utilities to the government, often at the expense of new infrastructure, repair and replacement.”	Page 9	This statement is not supported by evidence. No sound data is provided on alleged funds transfers and their impact on infrastructure expenditure.
“Water utilities that are operated as part of the local government structure experience rate pegging, reducing their ability to recover the cost of supplying water to consumers.”	Page 9	This statement is wrong in a number of respects and demonstrates a lack of understanding as to how provision of water supply and sewerage services by Local Government works. Firstly, rate pegging is only applied in NSW. Secondly, rate pegging does not cover water supply and sewerage charges but only general property rates (taxes). In NSW, revenue from water supply and sewerage charges is ring-fenced and not subject to external revenue restrictions.
“The ability to raise these funds depends somewhat on the number of connections served by the water utility. For a water utility servicing a very small population, constructing a water treatment plant has a high per person cost and it may take many years to raise the funds under existing structures. If the water utility serves a larger population, economies of scale can significantly reduce this per person construction cost.”	Page 10	This statement is not supported by sound evidence. Furthermore, water supply systems and infrastructure in regional NSW can be expected to generally remain localised which raises doubts over the ability to realise economies of scale in relation to infrastructure costs.
“The level of treatment on some surface water supplies is inadequate. Communities are at risk of being exposed to harmful disinfection by-products, cyanotoxins and pathogens.”	Page 12	The AECOM Report does not explain what an adequate level of treatment is in relation to fit for purpose water quality, particularly in relation to the individual circumstances of each town.
“However, it is crucial that water operations be seen as a career by both water utilities and the operators of the drinking water treatment plants. Water treatment plant operators protect public health and should have the skills to ensure this role can be fulfilled. <u>Given the current evidence this is clearly not the case.</u> ”	Page 21	The last sentence of this statement appears entirely inappropriate given that the “current evidence” provided in the AECOM Report merely includes some generic issue apparently identified in workshops and discussions with stakeholders records of which are not provided.
Photos/“figures” provided on pages 21 to 23	Pages 21 to 23	These photos are provided without context and without any reference to any particular utility, town, incident and date. This is entirely insufficient for the purpose of providing evidence.

Statement in AECOM Report	Reference	Comment
“For the majority of regional water utilities their options for diversifying raw water supply sources are limited by their geographic location. The majority of regional utilities are rainfall dependent and operate within regulated systems, governed by complex water sharing arrangements. Inland utilities cannot feasibly rely on desalination of sea water as a diversification option, while treatment of brackish groundwater results in difficult brine disposal issues. Establishing physical linkages between discrete supply systems is often not feasible due to remoteness.”	Page 24	These statements are not supported by any data or evidence.
“The successful management of drought is a key factor for many regional centres to ensure a viable future. However, the information collected suggests that drought management plans are rare amongst the smaller water utilities.”	Page 25	This statement appears incorrect. According to NSW Office of Water monitoring, 90% of NSW Local Government utilities have sound drought management in place, including 80% of the very small utilities (200-1,500 connections). See NSW Office of Water, <i>2008-09 NSW Water Supply and Sewerage Performance Monitoring Report</i> , appendix C, pages 65ff. This is hardly “rare”.
“Accountability to both regulators and customers is especially lacking in regional towns.”	Page 28.	This statement appears incorrect. NSW Local Government water utilities are accountable to a range of regulators, the most important of which are the NSW Office of Water and the NSW Department of Health. They are also accountable to their community (their customer) through the strategic service planning process in place as well as the democratic process of council election.
“Fundamentally, there are still a number of towns that are without domestic water metering, which is essential to develop accurate and reliable plans to ensure future water supply requirements can be met.”	Page 30	The AECOM Report seems to fail to provide data on non-existence of domestic water metering.
“As a result of the recognised economic difficulty water utilities have had in maintaining water assets, the Water Loss Management Program was established.”	Page 31	This is a blatant misinterpretation of the rationale behind the program. The program was established to build capacity in a relatively new skill set, i.e. water loss management, with a view to establish this skill set in the industry and enable utilities to implement water loss management as part of their normal business. The reason was not to provide funding for asset maintenance.

Statement in AECOM Report	Reference	Comment
<p>“Some of the many advantages that can be derived through governance reform have included:</p> <ul style="list-style-type: none"> • Significant scale economies in service provision, that come from sharing of resources and knowledge • Capacity to attract good quality staff increases • Ability to pay for new capital projects and renewals improves through greater customer base • Adaptability to new complexities arising in water quality management • ‘Catchment to coast’ based planning is made simpler • Less dependency on government funding in the long term • Potential to implement better and fairer pricing models.” 	Page 31	No sound evidence is provided for the advantages put forward in this statement.
<p>Figure 12 and “By comparing quality of services with cost and highlighting the economies of scale that may be provided, WSAA (2008) provide further justification for consolidation of smaller utilities (see Figure 12). Non-capital city economically regulated utilities tend to be relatively low cost but have mixed service levels, while council run utilities tend to be high cost with moderate service levels.”</p>	Page 32	It is unclear why this would mean that consolidation of “smaller utilities” would result in lower composite cost scores. No sound explanation is provided. The WSAA study might merely compare larger, probably metropolitan utilities with smaller regional utilities. However, this has very limited meaning for whether consolidation in regional areas where supply systems are locally separate would reduce cost.
<p>“Further, historical data shows that larger water utilities service their regional communities at relatively lower cost, with the annual water bill in Victoria being approximately 20% cheaper than the annual bill in regional NSW.”</p>	Page 33	This comparison is not appropriate in its simplicity as it does not take account of differences in cost structures due to demographic (e.g. population density), hydrologic (e.g. water sources and quality), geographic (e.g. distances between towns) and climatic (e.g. rainfall variability) attributes that exist in regional Victoria and regional, particularly western NSW.
Section 2.8	Pages 31 - 34	The section includes subsections with specific comments on Victoria, Tasmania and Queensland but not on NSW.
<p>“Many local government Councils rely on water utility revenue to their fund general purpose functions, and separation would therefore result in a loss of revenue.”</p>	Page 39	This statement is not supported by any sound evidence and does not consider that under the <i>Local Government Act (NSW) 1993</i> (section 409 (3) and (5)), NSW councils are not allowed to transfer funds from the water supply and sewerage fund to the consolidated fund (apart from paying a dividend following comprehensive business plan audit).
Smiggin Holes Ski Resort incident	Page K-2, Volume 2	The AECOM Report is misleading as it fails to make clear that the Smiggin Holes Ski Resort incident was not related to the local water utility (Snowy River Shire Council). The resort has its own water supply.

Statement in AECOM Report	Reference	Comment
Volume 2, town profiles	Volume 2, town profiles	<p>There are further issues in the town profiles that raise serious concerns over the credibility of the AECOM Report including:</p> <ul style="list-style-type: none"> • Many information are not supported by any evidence and there a significant information gaps in the profile; • Information on water rates are inconsistent in terms of reporting period and in some cases outdated (e.g. water rates from Lithgow and Bourke are from 2001/02, information from Wentworth, Narromine, Tumbarumba, Berrigan and others do not refer to any reporting period);

Lack of proper, evidence based analysis on recommendations on governance structure

The AECOM Report's recommendations relating to the governance structure are not supported by sound, evidence based analysis of structural models and their costs and benefits. Sound and credible policy analysis requires a comprehensive assessment of all options available to address an issue. The AECOM Report lacks such analysis in relation to the issue of which structural model is best suited for the delivery of water supply and sewerage services in regional NSW including:

- The AECOM Report fails to consider and compare all available structural models and applies a one-size-fits-all approach to all of regional NSW without taking account of differences in demographic (e.g. population density, population growth), hydrologic (e.g. water sources and quality), geographic (e.g. distances between towns), climatic (e.g. rainfall variability) and historic (existing arrangements) attributes that exist in regional NSW.
- The AECOM Report lacks comprehensive cost benefit analysis of structural models. Among other things, such analysis needs to include as potential benefits desirable outcomes such as ability to achieve integrated water cycle management, ability to achieve whole of community outcomes, and utilisation of the economies of scope councils provide. That Local Government can best deliver these benefits has been comprehensively covered in the Associations' first submission to the inquiry. A cost benefits analysis also needs to include cost associated with the impact of the removal of water supply functions from councils on the financial sustainability of councils. This issue has also been covered in the Associations first submission.
- The AECOM Report, when putting forward structural models, does not consider how the delivery of sewerage services, which are integral to the delivery of integrated water cycle management, fits into its models.

Incomprehensibly, the AECOM Report appears not to haven adequately taken into account the significant work on structural/governance models undertaken by the *NSW Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW*. This inquiry recommended, following extensive research and consultation over more than two years, the formation of regional alliances of councils. This recommendation, as the Associations understand, was confirmed by a NSW Government commissioned cost benefit analysis of structural models undertaken by KPMG.

Finally, the recommendations on structural reform in regional NSW seem to be based on alleged issues around water quality and cost reflective pricing. However, the persuasiveness of these issues with respect to structural reform appears very limited for the following reasons:

- In terms of water quality, limited data is provided only for a number of "problematic" towns intentionally selected by the report. However, the report, in its constant use of the term "smaller utilities" creates the impression of having comprehensibly researched water quality in regional

utilities. This is clearly not the case and consequently the report should have refrained from making any recommendations relating to all regional water utilities in NSW – smaller or larger.

- In terms of cost reflective pricing, it should be noted that the purpose of cost reflective pricing is to provide signals to consumers about their usage of resources and to decision makers about the affordability of levels of services. The larger the area and customers base covered by a utility, the more these signals can be diluted by internal cross subsidisation. This is especially relevant with respect to consolidation of utilities in regional areas where supply systems are often small and separated. Smaller, regional utilities are actually much better placed to provide these price signals either in form of prices reflective of the cost of a particular supply source and network or in form of affordability signals for decision makers to consider and consult upon with the community/customers. These signals much less occur in large utilities with postage stamp pricing and significant cross subsidisation among consumers.

3. Conclusion

The Associations strongly question the credibility and value of the AECOM Report. The report lacks comprehensive data analysis, contains significant inaccuracies, makes policy recommendations without sound, evidence based analysis, and does not adequately take account of significant research and consultation undertaken in NSW during the *NSW Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW*.

The Associations urge the Commission to be mindful of these shortcomings when considering the AECOM Report.

The Associations acknowledge that NSW Local Government water utilities, as a result of an industry wide skills shortage, face challenges to attract and retain skilled labour. This challenge is not unique to regional water utilities but is affecting the water sector across Australia. NSW Local Government water utilities have responded to this challenge by developing a regional alliance model, supported by the NSW Government and the *NSW Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW*, which will enable the sharing of resources and skills.

Finally, the Associations note that, following the *NSW Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW*, NSW Local Government and the NSW Government have put processes in place to make best practice mandatory, including progressively implementing water quality frameworks complying with the Australian Drinking Water Guidelines. The new *Public Health Act (NSW) 2010* (section 25) now requires every drinking water supplier to have in place appropriate drinking water quality assurance programs and is to refer to the Australian Drinking Water Guidelines in its regulations.