



The Hon Nathan Rees MP
Minister for Emergency Services
Minister for Water Utilities

*WATER SUPPLY - GENERAL
 DEVELOPMENT SERVICING PLANS
 SEWERAGE MANAGEMENT - PLANNING*

S08/16

Mr Michael Rayner
 Tweed Shire Council
 PO Box 816
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TWEED SHIRE COUNCIL
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Dear Mr Michael Rayner

I am writing to update you on the local water utility inquiry I recently announced for country NSW.

I am pleased to inform you that the independent panel responsible for conducting the inquiry comprises the former Deputy Premier, The Hon Ian Armstrong OBE, and the former head of the Premier's Department, Dr. Colin Gellatly.

Following extensive consultations with country water utilities around NSW on the draft terms of reference for the inquiry, the terms of reference have been modified to reflect the feedback we have received. A copy of the revised terms of reference are enclosed for your interest.

Over recent months I have personally met more than 40 country water utilities, and received more than 50 submissions on the draft terms of reference. I will also be visiting a number of country towns over the coming weeks to discuss the inquiry with community and local government stakeholders. I invite you to meet with myself and the Deputy-Director General of the Department of Water and Energy in late January or mid February at any of the following locations.

- Dubbo
- Tamworth
- Glen Innes
- Armidale
- Taree
- Queanbeyan
- Albury
- Narranderra
- Bathurst

Dates and times for these meetings will soon be available via the weekly Local Government Association and Shires Association newsletter, and from the Department of Water and Energy. If you or your representatives would like to attend one of these meetings, please call the Department to reserve your place on (02) 8281 7777.

A discussion paper on the local water utility inquiry will soon be available from the Department of Water and Energy website, and I invite you to make a submission to the inquiry on any issues within the terms of reference. Details on how to make a submission to the inquiry will soon be available on the Department's website at: www.dwe.nsw.gov.au

In the coming months, Mr Armstrong and Dr Gellatly will be holding hearings in a number of locations around NSW to seek input from all stakeholders including councils, industry, businesses and residents. Information about these hearings will also be made available on the Department's website.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nathan Rees', written in a cursive style.

Nathan Rees
Minister for Emergency Services
Minister for Water Utilities

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TERMS OF REFERENCE

Inquiry into secure and sustainable urban water supply and sewerage services for non-metropolitan NSW.

OBJECTIVE

- To identify the most effective institutional, regulatory and governance arrangements for the long term provision of water supply and sewerage services in country NSW; and
- Ensure these arrangements are cost-effective, financially viable, sustainable, optimise whole-of-community outcomes, and achieve integrated water cycle management.

THE TASK

The State's 107 local water utilities are facing growing challenges, posed by drought, climate change, environmental water allocations, demographic shifts, technological advances and skill shortages.

In view of the challenges facing the utilities, the inquiry is to identify the most appropriate institutional and regulatory arrangements for the water supply and sewerage industry in NSW in order to ensure that services are efficient, reliable, affordable and safe.

In particular, the inquiry should identify arrangements that will enable customers of water utilities in regional NSW to benefit from a secure water supply, professionalism, cost effective service standards and regulatory safeguards in the provision of water supply and sewerage services.

As a minimum, the Government expects water supply and sewerage service providers to:

- respond and plan in advance to the challenges facing the industry;
- be financially self sufficient;
- be able to comply with appropriate stringent environmental and public health standards; and
- implement cost-effective service standards.

In considering the merits of any new industry arrangements, the inquiry should take into account:

- the historical structure of the industry and its performance record to date;
- the current and future challenges facing the industry;
- the present capacity of the industry to address those challenges;
- alternative industry arrangements used in other states;
- the impact of any changes on the financial sustainability of councils;
- the socio-economic impacts on the community, including indigenous communities, of any new institutional and regulatory arrangements;
- the relative performance of other states and their experience with industry reform;
- the institutional and regulatory options available, including the relative merits and drawbacks of each; and
- the role local, state and federal governments should play in further improving services.

The inquiry is to focus on the provision of urban water supply and sewerage in rural and regional NSW. Sydney Water, Hunter Water, Gosford City Council water supply authority and Wyong Shire Council water supply authority are excluded from the inquiry.

Inquiry into secure and sustainable urban water supply and sewerage services for non-metropolitan NSW

Discussion paper



January 2008



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Inquiry into secure and sustainable urban water supply and sewerage services
for non-metropolitan NSW – Discussion paper

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1. Introduction

In an address to the annual Local Government Water Management Conference in Inverell in August 2007, the Minister for Water Utilities, the Hon Nathan Rees MP, announced an Inquiry into the institutional and regulatory arrangements by which town water supply and sewerage services are provided in country NSW.

The last detailed review of the water supply and sewerage services for country towns was conducted in 1993. Since then, the operating environment of local water utilities has changed dramatically. Drought, climate change and sustainable extraction rules have reduced the yield of local water utilities' water systems. Forecast population growth will place additional pressure on water yields and will require sewerage system enhancements and expansion.¹ A substantial capital expenditure program is underway to replace ageing assets. Additionally, local water utilities are experiencing shortages in the skills needed to plan and operate water assets. This situation will deteriorate further with the ageing of the workforce.

These challenges will require substantial investment in both physical assets and skilled human resources to ensure efficient, reliable, affordable and safe water supply and sewerage services in the future.

Performance of the NSW local water utilities is wide ranging. Some local water utilities are very well managed. These utilities have achieved broad compliance with the Government's *Best-Practice Management of Water Supply and Sewerage Guidelines* and most have reasonable residential bills and operating costs per property serviced. They also have high compliance with the Australian Drinking Water Guidelines and low levels of water quality and service complaints. However, many utilities face constant challenges to plan for, and deliver, reliable, high quality water and sewerage services. Further details on the performance of the utilities can be found in Section 4 of this paper.

The objective of the Inquiry is to identify the most effective arrangements for the long-term provision of cost-effective and sustainable water supply and sewerage services in country NSW. The guiding principle for the Inquiry is that every person in NSW is entitled to benefit from professionalism, cost effective service standards and regulatory safeguards in the provision of water supply and sewerage services.

The Government has appointed two eminent members of the community to head the Inquiry: the former Deputy Premier, The Hon Ian Armstrong OBE, and the former head of the Premier's Department, Dr. Colin Gellatly. The Inquiry's Terms of Reference are attached at Appendix 1.

The purpose of this paper is to encourage thought and discussion on the issues that local water utilities are facing and to examine opportunities to provide NSW country towns with cost-effective and sustainable water supply and sewerage services that optimise whole-of-community outcomes, and achieve integrated water cycle management.

Interested stakeholders are invited to make written submissions to be considered as part of the Inquiry. Submissions should be received by 7 March 2008.

¹ Inflows to reservoirs in NSW have been projected to decrease by up to 15% for just a 1°C increase in temperature (CSIRO, 2006)

Stakeholders will also be able to address the Inquiry at any one of the public hearings in early 2008. For information on how to present to the independent panel at one of the fifteen hearings to be held across NSW, please see Section Six of this paper for details.

It should be noted that the Inquiry does not cover Gosford and Wyong Councils. These councils requested the NSW Government prepare legislation to enable the establishment of the Central Coast Water Corporation. Discussions are continuing following the passing of the *Central Coast Water Corporation Act 2006*.

2. Current institutional and regulatory arrangements

Water, sewerage and stormwater drainage services in non-metropolitan NSW are predominantly provided by:

- 97 general purpose local government councils;
- four water supply county councils;
- one water supply and sewerage county council; and
- five water supply authorities.

Approximately 1.8 million people rely on these providers for water supply and sewerage services.

The obligations of council and county council owned water utilities are set out in the *Local Government Act 1993*. The obligations of water supply authorities are set out in the *Water Management Act 2000*. Water utilities operating under these Acts are referred to in this paper as *local water utilities*.

The *Local Government Act* establishes the operating areas of local water utilities. The boundaries are established on political / geographical criteria rather than commercial or water cycle criteria. Consequently, there are 107 local water utilities with customer bases ranging from 200 connections to over 65,000 connections. The utilities with large customer bases are generally well resourced, while the small utilities have difficulties in attracting and retaining essential skills such as business planning, financial management and engineering.

Local water utilities are not subject to operating licences. Instead, the key driver for continuing improvement in local water utilities is the NSW Government's *Best-Practice Management of Water Supply and Sewerage Guidelines*. The purpose of these guidelines is to encourage the effective and efficient delivery of water supply and sewerage services and to promote sustainable water conservation practices and water demand management throughout NSW. Local water utilities that achieve the outcomes outlined in the guidelines will satisfy National Water Initiative obligations, reinforce a commercial focus in managing and operating local water utilities and achieve continuing improvement in:

- service levels and reliability;
- service efficiency and affordability;
- skills and technology;
- maintaining infrastructure;
- business planning; and
- compliance with standards.

Key elements of the guidelines are:

- strategic business planning and long term financial planning;
- water supply and sewerage pricing and developer charges (including liquid trade waste policy, approvals and pricing);
- water conservation and demand management;
- drought management;
- annual performance reporting; and
- integrated water cycle management.

The guidelines are not mandatory but there are incentives for compliance.

Water and sewerage pricing by Sydney Water Corporation, Hunter Water Corporation and Gosford and Wyong Councils is regulated by the Independent Pricing and Regulatory Tribunal. Pricing by the remaining 105 local water utilities is determined by local water utilities having regard to *Best-Practice Management of Water Supply and Sewerage Guidelines*. Only the prices established by Country Water, Fish River and Cobar Water Board require approval/endorsement from the Minister under the Water Management Act.

Arrangements for water supply and sewerage service delivery in other states are described in Appendix 2.

3 The Challenges

The current non-metropolitan urban water industry structure has largely been in place since the assent of the *Local Government Act 1993*. However, since then, a number of significant developments have, already, or will, impact on the operation of local water utilities.

NATIONAL REFORM

- In February 1994, the Council of Australian Governments (CoAG) adopted a strategic framework for the reform of the Australian water industry. In relation to urban water, the framework focused on institutional change, principally through requirements that urban water utilities be commercially focused and adopt water pricing reforms.
- The successor to the original CoAG reform process, the National Water Initiative, requires Australian jurisdictions to develop water sharing plans that provide a greater share of water for the environmental health of rivers. This is done in consultation with stakeholders including local water utilities. This process effectively requires local water utilities to compete with all other users, including the environment, when seeking access to more water to meet future demand. The Department of Water and Energy estimates that water sharing plans will reduce the yield of affected water utilities' assets by 20 to 30 per cent. The impact will mainly be felt by local water utilities extracting water from unregulated rivers (mainly coastal NSW).

CLIMATE CHANGE AND DROUGHT

- The CSIRO predicts that annual rainfall in NSW is likely to decline permanently as a consequence of global warming. By 2070 the decline in annual rainfall in NSW is estimated to be between 10 to 20 per cent. A rainfall reduction of this magnitude is predicted to decrease stream flows by approximately 30 per cent.
- The current drought has seen record low dam levels and stream flows in most of NSW. Current systems were not designed to provide security of supply under these conditions.

DEMOGRAPHIC CHANGE

- Based on Department of Planning figures, the population of coastal non-metropolitan NSW is expected to grow by 34 per cent during 2001 to 2031, while the population of inland NSW will grow slowly with some areas expected to see a decline in population.

REPLACEMENT OF AGEING ASSETS

- A significant proportion of existing local water utility assets will require replacement over the next thirty years as they come to the end of their economic life.

SKILLS SHORTAGES

- With the ageing of the labour force and the anticipated net decline in skilled labour in the next few years, local water utilities face a shortage of skilled people to adequately plan, maintain and operate water supply and sewerage systems across NSW. This could have serious implications for business efficiency, public health and environmental protection.
- A significant proportion of engineers currently in the workforce graduated in the 1960s and 1970s and it is estimated that around 30,000 engineers will retire within the next decade. The Institute of Public Works Engineers estimates that retirements will result in losses of up to 50 per cent of engineers currently working in the field.

These are significant challenges for local water utilities and will require substantial investment in both physical assets and skilled human resources in the fields of planning, business and financial management and engineering.

4. Case for the Inquiry

Well managed water utilities have achieved broad compliance with the Government's *Best-Practice Management of Water Supply and Sewerage Guidelines* and most have relatively low residential bills and operating costs (OMA – operation, maintenance and administration) per property. High performing utilities also have a high level of compliance with the *Australian Drinking Water Guidelines* and low levels of water quality and service complaints.

The Government's *Best-Practice Management of Water Supply and Sewerage Guidelines* is the key instrument for driving performance improvement by local water utilities. The level of compliance with the guidelines is high for the larger local water utilities. Over 85 per cent of utilities with more than 10,000 connected properties comply. Compliance by smaller local water utilities is significantly less:

- Utilities with 3,001 to 10,000 connected properties – 71 per cent comply with the guidelines for water supply and 60 per cent for sewerage;
- Utilities with 1,501 to 3,000 connected properties – 66 per cent comply for water supply and 51 per cent for sewerage; and
- Utilities with 200 to 1,500 connected properties – 53 per cent comply for water supply and 44 per cent for sewerage.

Arguably, it is the smaller and marginally viable local water utilities that have the greatest need for adopting the guidelines to ensure long term business sustainability. Limited compliance with the guidelines is certainly a factor in the wide disparity in the performance of local water utilities.

ANALYSIS OF THE PERFORMANCE OF THE NSW LOCAL WATER UTILITIES

The key performance indicators for NSW local water utilities for the 2005/06 financial year are analysed in Tables 1 and 2. Each table shows the results for the median local water utilities, as well as the 20th percentile values (the top 20 per cent of local water utilities) and the 80th percentile values (the top 80 per cent of local water utilities). The tables also show the reported range of local water utility results for each performance indicator.

With regard to water services (Table 1), the supporting calculations show that there are:

- 20 local water utilities with operating costs over \$400/property (Indicator 3)
- 15 local water utilities with management costs over \$150/property (Indicator 5)
- 7 local water utilities without full cost recovery (Indicator 7)
- 33 local water utilities with Typical Residential Bill over \$500/assessment (Indicator 9)
- 22 local water utilities with chemical water quality compliance under 95 per cent (Indicator 12)
- 20 local water utilities with microbiological water quality compliance under 98 per cent (Indicator 13)
- 14 local water utilities with more than 30 water main breaks per 100km of main (Indicator 15).

With regard to sewerage services (Table 2), the supporting calculations show that there are:

- 8 local water utilities with operating costs over \$400/property (Indicator 3)
- 7 local water utilities with management costs over \$150/property (Indicator 5)

- 5 local water utilities without full cost recovery (Indicator 7)
- 18 local water utilities with Typical Residential Bill over \$500/assessment (Indicator 9)
- 10 local water utilities failed to comply with the 90 percentile limit of their biochemical oxygen demand (BOD) licence
- 25 local water utilities failed to comply with the 90 percentile limit of their suspended solid (SS) licence
- 15 local water utilities with more than 90 sewer main chokes and collapses per 100km of main (Indicator 14)
- 10 local water utilities with more than 28 sewer overflows to the environment per 100km of main (Indicator 15).

Conclusion

The analysis shows a wide range of compliance with the *Best-Practice Management Guidelines* by local water utilities. In particular, the 52 utilities with fewer than 3,000 connected properties have achieved 53 per cent compliance.

Table 1 – Analysis of 2005/06 Water Supply Performance of the NSW Local Water Utilities (LWUs)

No	Performance Indicator	% of LWUs basis ¹			Range of LWU results	
		20 th percentile ²	Median ³	80 th percentile ⁴		
	UTILITY CHARACTERISTICS					
1	Connected properties	13,800	3,600	1,350	65,500	460
2	Employees per 1000 properties	1.2	1.8	2.7	0.8	5.2
	ECONOMIC – Efficiency					
3	Operating Cost (OMA) per property (\$/property)	260	340	430	169	944
4	Operating cost (OMA) per kL (c/kL)	50	80	115	19	200
5	Management cost (\$/property)	70	100	140	18	385
	ECONOMIC – Financial					
6	Economic Real Rate of Return (%)	5	2	-1	12.6	-8.6
7	Return on Assets (%)	4	2	0	8.7	-4.8
8	Net Debt to Equity (%)	-1	-12	-22	22	-90
	SOCIAL – Charges/Bills					
9	Typical Residential Bill 2006/07 [TRB] (\$/assessment)	340	435	570	216	998
10	Typical Developer Charges 2006/07 (\$/equivalent tenement)	4,150	2,700	1,700	9,230	400
	ENVIRONMENTAL					
11	Average Annual Residential Consumption (kL/property)	180	240	420	105	759 (potable)
	SOCIAL – Health					
12	Chemical Water Quality Compliance (%)	100	100	94	100	45
13	Microbiological Water Quality Compliance (%)	100	100	97	100	57
	SOCIAL – Levels of Service					
14	Water Quality complaints (per 1000 properties)	2	3	9	0	96
15	Number of Main Breaks (per 100 km of main)	1	6	18	3	143
16	Drought Water Restrictions (% of time)	0	0	100	0	100
17	Total Days Lost (%)	0	2	4	1	12

¹ Source: Appendix C, 2005/06 NSW Water Supply and Sewerage Benchmarking Report.

² The top 20% of local water utilities

³ The median is the middle of a distribution: half the scores are above the median and half are below the median.

⁴ The top 80% of local water utilities

Table 2 – Analysis of 2005/06 Sewerage Performance of the NSW Local Water Utilities (LWUs)

No.	Performance Indicator	% of LWUs basis ¹			Range of LWU results	
		20 th percentile ²	Median ³	80 th percentile ⁴		
	UTILITY CHARACTERISTICS					
1	Connected Properties	10,400	2,600	1,050	63,800	200
2	Employees per 1000 properties	1.2	1.7	2.6	0.6	2.6
	ECONOMIC – Efficiency					
3	Operating Cost (OMA) per property (\$/property)	190	260	340	101	491
4	Operating cost (OMA) per kL (c/kL)	85	110	150	24	263
5	Management cost (\$/property)	55	90	130	7	214
	ECONOMIC – Financial					
6	Economic Real Rate of Return (%)	5.0	1.8	-0.4	17.2	-13.8
7	Return on Assets (%)	4.5	1.7	0.2	10.6	-7.2
8	Net Debt to Equity (%)	0	-18	-30	27	-98
	SOCIAL – Charges/Bills					
9	Typical Residential Bill 2006/07 [TRB] (\$/assessment)	300	385	495	178	930
10	Typical Developer Charges 2006/07 (\$/equivalent tenement)	4,300	2,100	1,000	9,220	400
11	Non-residential Sewer Usage Charge/kL	140	100	75	262	15
	ENVIRONMENTAL					
12	Compliance with BOD in Licence (%)	100	100	92	100	32
13	Compliance with SS in Licence (%)	100	94	75	100	33
14	Sewer Main Chokes and Collapses (per 100 km of main)	13	44	75	0	351
15	Sewer Overflows to the environment (per 100 km of main)	4	9	28	0	113
	SOCIAL – Levels of Service					
16	Odour complaints (per 1000 properties)	0.0	0.5	3.0	0	15
17	Total Days Lost (%)	1	3	5	0	19

¹ Source: Appendix C, 2005/06 NSW Water Supply and Sewerage Benchmarking Report.

² The top 20% of local water utilities

³ The median is the middle of a distribution: half the scores are above the median and half are below the median.

⁴ The top 80% of local water utilities

5. Inquiry principles

The Inquiry will be guided by a key principle:

Customers of local water utilities are entitled to benefit from professionalism, cost-effective service standards and regulatory safeguards in the provision of water supply and sewerage services.

As a minimum, the Government expects water supply and sewerage service providers to meet a range of standards and objectives. These are outlined below.

1. RESPOND PROFESSIONALLY TO CHALLENGES

Water utilities need to have sound strategic planning skills and business management skills to address these challenges. Utilities must also establish and achieve appropriate service standards in consultation with their communities.

2. BE FINANCIALLY SELF-SUFFICIENT

Water utilities should:

- achieve full cost recovery pricing practices that includes provisioning for asset renewals and growth (also a key requirement of the National Water Initiative);
- make use of appropriate funding options (e.g. debt, equity);
- develop a commercially focused business; and
- optimise the business' structure and customer base.

The Inquiry must examine:

- the benefits of pricing oversight by the Independent Pricing and Regulatory Tribunal or a similar body;
- the benefits of introducing expert and professional governance and dedicated management to all local water utilities;
- different business structure models including corporatisation;
- the minimum scale required for water utility viability in terms of connections, revenue, staffing and service delivery capabilities;
- the impact of any changes on the financial sustainability of councils; and
- the socio-economic impact of any changes on communities.

3. BE ABLE TO COMPLY WITH INCREASINGLY STRINGENT ENVIRONMENTAL AND PUBLIC HEALTH STANDARDS

Utilities should implement a risk management approach to satisfying environmental and water quality requirements. In addition, water utilities need to employ sufficient scientific and technical skills to adequately plan, maintain and operate water supply and sewerage systems within regulatory requirements.

4. IMPLEMENT COST EFFECTIVE SERVICE STANDARDS

Utilities should provide cost-effective service standards to their customers. In addition performance indicators should be reported annually. Consideration may be given to extending the current requirements for independent auditing of performance indicators.

The complete Terms of Reference for the Inquiry are at Appendix 1.

6. Inquiry process

The Inquiry into arrangements for water supply and sewerage in non-metropolitan NSW will be conducted in three stages:

Stage 1. Release of discussion paper and call for written submissions

Submissions are invited from any interested person or organisation addressing any issue/s within the terms of reference for the Inquiry and may include:

- Facts
- Opinions
- Arguments
- Recommendations for action.

In preparing a submission, consideration should be given to addressing the matters outlined in the terms of reference (Appendix 1). Submissions will alert the Inquiry to relevant facts or information. It is preferable that a submission is written and in electronic format, although this is not essential. Other formats such as video and audiotape are acceptable. If you are making a submission on behalf of an organisation, please indicate who has authorised it, for example, the executive committee, president or chairperson. Please ensure that your name, address and phone number are included with your submission.

Submissions should be sent to waterinquiry@dwe.nsw.gov.au or posted to:

Local Water Utility Inquiry
Department of Water and Energy
GPO Box 3889
SYDNEY NSW 2001

Submissions must be received by the Department of Water and Energy by close of business on Friday 7 March 2008. All submissions will be posted on the Department of Water and Energy website at www.dwe.nsw.gov.au

Stage 2. Conduct hearings

After receiving written submissions, a series of hearings will be conducted across NSW commencing March/April 2008 to enable interested parties to make presentations to the Inquiry. Hearings will be conducted in regional NSW at the following fifteen locations as shown in Figure 1.

- Albury
- Bourke
- Broken Hill
- Coffs Harbour
- Cooma
- Cowra
- Dubbo
- Forbes
- Griffith
- Nowra
- Orange
- Tamworth
- Temora
- Tweed Heads
- Wagga

Figure 1 – Locations for Inquiry hearings



For more details about hearing times and locations, please visit the Local Water Utility Inquiry site at: www.dwe.nsw.gov.au

If you would like to make a presentation to the Inquiry at a hearing, you must register at www.dwe.nsw.gov.au or contact the Department of Water and Energy on (02) 8281 7319.

Stage 3. Inquiry Report

Once the Inquiry has received submissions, heard from interested parties at the hearings and surveyed relevant documentation, a report will be prepared with recommendations for the Government's consideration. The report will identify the most appropriate regulatory arrangements for the non-metropolitan water supply and sewerage industry in NSW based on the Terms of Reference of the Inquiry. The Government will then determine how these recommendations will be acted upon in order to achieve the objectives of the Inquiry.

Summary of Inquiry Process

Stage	Detail	Date
Public submissions closed	Members of the public invited to make submissions based on the terms of reference of the Inquiry.	7 March 2008
Public hearings	Fifteen hearings conducted across NSW inviting people to make verbal representations to the Inquiry Panel.	March/April 2008
Inquiry Panel's recommendations to the NSW Government	Information presented to the panel in written submissions and verbal presentations will be used to inform the Inquiry's recommendations to the NSW Government.	June/September 2008
NSW Government reviews report and responds to recommendations	The NSW Government will respond to recommendations made by the Inquiry.	November 2008

Appendices

APPENDIX 1. TERMS OF REFERENCE

OBJECTIVE

- To identify the most effective institutional, regulatory and governance arrangements for the long term provision of water supply and sewerage services in country NSW; and
- Ensure these arrangements are cost-effective, financially viable, sustainable, optimise whole-of-community outcomes, and achieve integrated water cycle management.

THE TASK

The State's 107 local water utilities are facing growing challenges, posed by drought, climate change, environmental water allocations, demographic shifts, technological advances and skill shortages.

In view of the challenges facing the utilities, the Inquiry is to identify the most appropriate institutional and regulatory arrangements for the water supply and sewerage industry in NSW in order to ensure that services are efficient, reliable, affordable and safe.

In particular, the Inquiry should identify arrangements that will enable customers of water utilities in regional NSW to benefit from a secure water supply, professionalism, cost effective service standards and regulatory safeguards in the provision of water supply and sewerage services.

As a minimum, the Government expects water supply and sewerage service providers to:

- respond and plan in advance to the challenges facing the industry;
- be financially self sufficient;
- be able to comply with appropriate stringent environmental and public health standards; and
- implement cost-effective service standards.

In considering the merits of any new industry arrangements, the Inquiry should take into account:

- the historical structure of the industry and its performance record to date;
- the current and future challenges facing the industry;
- the present capacity of the industry to address those challenges;
- alternative industry arrangements used in other states;
- the impact of any changes on the financial sustainability of councils;
- the socio-economic impacts on the community, including indigenous communities, of any new institutional and regulatory arrangements;
- the relative performance of other states and their experience with industry reform;
- the institutional and regulatory options available, including the relative merits and drawbacks of each; and
- the role local, state and federal governments should play in further improving services.

The Inquiry is to focus on the provision of urban water supply and sewerage in rural and regional NSW. Sydney Water, Hunter Water, Gosford City Council water supply authority and Wyong Shire Council water supply authority are excluded from the Inquiry.

APPENDIX 2. WATER SUPPLY AND SEWERAGE SERVICE DELIVERY IN OTHER JURISDICTIONS.

Victoria

In 1994 the Victorian Government established thirteen regional urban water authorities to replace the water supply and sewerage service provision role of 120 water boards and local councils. The authorities serve a population of about one million and their areas of operations are generally based on catchments, allowing complete integration of water resource planning from source to tap. The authorities are subject to economic (price) regulation by the Essential Services Commission and must comply with their statement of obligations and operating licences. The Essential Services Commission is also the statement of obligations and operating licence regulator.

The authorities are managed by professional skill-based boards and are structured on a similar basis as state-owned corporations in NSW. The authorities pay dividends to the Victorian State Government.

South Australia

SA Water is responsible for the delivery of water and wastewater services to 1.4 million people across the State. It has a turnover of \$750 million, assets valued at \$6 billion and 1300 staff. SA Water is a statutory corporation.

Sewerage services to the 200,000 non-metropolitan population in South Australian towns are provided by local government councils.

The Essential Services Commission of South Australia is the State's economic regulator. Water and wastewater services are not regulated. However the Treasurer can direct the Commission to undertake inquiries and has done so on four occasions in regard to water prices.

In 1996 the SA Government awarded United Water (shareholders are Veolia Water 95 per cent and Halliburton KBR 5 per cent) a fifteen year contract to manage and operate the metropolitan Adelaide water and wastewater systems on behalf of SA Water. United Water is responsible for management and delivery of the capital works program, development of the asset management plan, emergency planning and environmental management. SA Water remains responsible for the collection of revenue, managing customer relationships, managing catchments and setting service standards. SA Water owns the infrastructure assets and controls capital expenditure.

Queensland

Until recently, local government was responsible for the state-wide provision of water and sewerage services to Queensland communities. These services were provided by 156 local utilities.

The Queensland Government recently announced significant changes to the institutional and regulatory arrangements for the supply of water and sewerage services in south-east Queensland. Bulk water assets currently operated by twenty-five separate entities would be separated from the rest of the water supply system and ownership transferred to two catchment-based state-owned entities. The "retail" component of water and sewerage

services which are council-owned and operated and comprise seventeen separate businesses are to be consolidated into no more than ten council-owned retail businesses. All water and sewerage reticulation, service pipes and meters will be owned and operated by a single council-owned distribution business.

Water pricing is not directly regulated. However, the Queensland Competition Authority has powers to conduct investigations into water pricing.

In April 2007 the Queensland Government established a Local Government Reform Commission to make recommendations on the most appropriate structure and boundaries for local government in Queensland. All local governments were reviewed, excluding Brisbane City Council.

On 27 July 2007, the Commission provided its recommendations to the Queensland Government on the name, class, boundary and electoral arrangements for the new local government areas. The Queensland Government accepted the Commission's boundary recommendations, which will reduce the number of councils in Queensland from 157 to 73 at the next council elections in March 2008.

Western Australia

The Western Australian water services industry serves almost two million customers in over 300 towns and communities throughout the State. Water services include potable and non-potable water supply, sewerage, irrigation and drainage.

The Water Corporation is by far the State's largest water service provider. Other industry participants include the Bunbury and Busselton water boards. Sewerage services to the 200,000 non-metropolitan population in Western Australian towns are provided by local government councils.

The regulatory framework for the water services industry was established under the *Water Services Licensing Act 1995* (the Act). The Economic Regulation Authority is responsible for the functions outlined in the Act which include licensing and monitoring the performance of water industry service providers.

The licensing function includes processing licence applications and amendments and in doing so sets minimum service and performance standards to safeguard the longer term interests of consumers and the management of assets.

Under the licensing scheme, applicants apply for a licence and the Authority assesses whether applicants have the financial and technical ability to operate the service and that the application is not contrary to public interest.

The monitoring function aims to ensure that water service providers meet relevant standards which may include:

- Drinking water quality standards;
- Drinking water pressure and flow standards;
- Drinking water continuity standards;
- Sewerage service standards;
- Irrigation water quality and delivery standards;
- Drains and drainage standards;

- Customer service and complaint handling standards.

The regulatory structure for the water industry separates water service provision from water source allocation and protection.

Regulatory agencies, in addition to the Economic Regulation Authority which play a role in the WA water industry include the Department of Water and the Health Department:

- The Department of Water is responsible for protecting and managing the State's water resources, including management of the licensing system for water source allocation.
- The Authority licences and monitors water service provision.
- The Health Department regulates health standards for drinking water supplied by the service providers.

Tasmania

Water supply and sewerage services are provided by twenty-eight local councils to serve a population of 400,000.

The Tasmanian water industry provides water and associated services to approximately 90 per cent of Tasmanian households. The portion of the population who do not have access to these services rely on rainwater and septics or composting toilets.

Three bulk water authorities - Hobart Water, Esk Water and Cradle Coast Water - supply 75 per cent of the population with fully treated water.

All the water authorities have some spare capacity in supply although the existing infrastructure is not always capable of meeting peak summer demands. Some of the non-metropolitan areas experience water restrictions during the summer months owing to low flows in water supply streams, as well as boil water alerts. A major issue for Tasmania is that the urban water supply schemes are highly dispersed and managed and funded by local councils; therefore there is little opportunity for economies of scale in infrastructure planning and provision of technical expertise.

The supply of water industry services including bulk water supply, reticulation and wastewater treatment and disposal is the responsibility of the bulk water authorities and local councils. Local government is responsible for all town sewerage schemes including sewage and wastewater management. A number of industrial and commercial users pump waste directly into council sewerage systems.

The Government Prices Oversight Commission has powers to investigate the pricing policies and practices of government business enterprises, government agencies and local government bodies that are monopoly, or near monopoly, suppliers of goods and services in Tasmania.

In December 2006 the Tasmanian Government established the Ministerial Water and Sewerage Taskforce to identify long-term improvements in Tasmania's water services and sewerage infrastructure.

Shires Association of NSW

Our ref: R07/0028 Out-15817
Further contact: Sascha Moege
20 February 2008

Mr Mark Rayner
General Manager
Tweed Shire Council
PO Box 816
MURWILLUMBAH NSW 2484

Dear Mr Rayner

Inquiry into Water and Sewerage Provision in Regional NSW

I refer to my letter of 1 February 2008 announcing a working paper to assist councils in making a submission to the inquiry into water supply and sewerage provision in regional NSW. Please find the paper attached. You can download an electronic copy of the paper on our website at <http://www.lgsa.org.au/www/html/2063-lwu-review.asp>.

The working paper was prepared by the Institute for Sustainable Futures (ISF) for the working group formed by the Associations and the NSW Water Directorate. It includes an analysis of a range of potential models for the provision of water supply and sewerage services in regional NSW. The paper does not represent the endorsed position of the LGSA or the NSW Water Directorate.

The Associations and the NSW Water Directorate are not making a recommendation on a preferred model. However, there are considerable benefits to councils' submissions referring to the models or combination of models outlined in the working paper.

One of the options is for the status quo – 107 water utilities - to remain. There may be some benefits to this model, particularly in certain areas. The Minister has made it clear he does not support this option, so it is crucial that those councils that do provide clear evidence for their support for the status quo.

There are four other potential models that could be viable:

- Regional mandatory alliances;
- County council (service provision only);
- County council (including asset ownership); and
- Regional council aligned to catchments or sub-catchments.

These models would maintain local control and ownership, utilise economies of scope through integration with other council functions, enable integrated resource planning and water cycle management, and so optimise whole of community outcomes (fourth generation water industry).

This is an important inquiry affecting councils in regional NSW and we encourage you to make a submission. Please send any comments on our working paper and/or a copy of your submission to the Associations per email to sascha.moege@lgsa.org.au or in writing to the attention of Mr Sascha Moege, Senior Policy Officer – Water. If you have any questions, please contact Mr Moege by phone 02 9242 4045 or email sascha.moege@lgsa.org.au.

Yours sincerely



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WATER DIRECTORATE



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**Options paper
on the Inquiry into secure and sustainable
urban water supply and sewerage services
for non-metropolitan NSW**

**Prepared for the
Local Government and Shires
Associations
New South Wales
&
NSW Water Directorate**

**By the
Institute for Sustainable Futures
University of Technology, Sydney**

Chris Davis
Michael Paddon
Joanne Chong

February 2008

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1) Introduction

A State-wide inquiry into secure and sustainable urban water supply and sewerage services for non-metropolitan NSW has been initiated. The objective is “to identify the most effective institutional, regulatory and governance arrangements for the long term provision of water supply and sewerage services in county NSW,” and to “ensure that these arrangements are cost-effective, financially viable, sustainable, optimise whole-of-community outcomes, and achieve integrated water cycle management.” The full terms of reference are in Appendix A.

This report aims to advise members of LGSA of the range of options available; examine how they meet the nominated objectives specified in the Inquiry’s terms of reference (ToR); highlight some additional principles; and to commend those options which may be practical for local authorities across NSW – noting that, given the diversity of circumstances, some options may suit some councils better than others.

In meetings and briefings about the Inquiry, the NSW Minister for Water Utilities, the Hon Nathan Rees, has explicitly stated that, “the status quo is not an option,” implying that continuing to have 107 separate water supply and sewerage entities operating across the state will not be countenanced. This report takes that as a given, but in the knowledge that some councils may meet criteria for viable and effective water businesses, depending on their local circumstances, so might continue with little change. The status quo is thus included as a legitimate option in this report.

In view of the sheer geographic size of NSW, the fact that there are currently so many water and sewerage providers involved, and the diversity of physical, demographic and economic situations that apply; it seems unlikely that any one option will suit all circumstances State-wide. This report is based on the premise that there may well be two or more options which are ultimately implemented in parallel, to suit local circumstances.

This report does not pretend to deal systematically with all the issues raised in the Discussion Paper released with the ToR; but it does offer an overview of the alternative institutional/organisational arrangements which are likely to be feasible and makes an assessment of each of them.

The report represents advice that is before the working group formed by the Local Government and Shires Associations of NSW and the NSW Water Directorate to respond to the Inquiry. It does not necessarily represent the endorsed position of the LGSA or the NSW Water Directorate.

2) Background information

The terms of reference for this Inquiry allude to various factors which should be considered. Some of those factors are addressed explicitly in the analysis of options, but others are contextual across the State and are discussed here to provide critical background information.

- a) Historical structure of the industry: NSW has a history of individual councils providing their own water and sewerage services, apart from the special cases of Sydney, Newcastle and Broken Hill, which were established as State-owned enterprises from an early stage. There were, quite recently, 121 local water utilities, but some amalgamations brought the number down to the current 107 for non-metropolitan areas. Although many councils have set up water and sewerage services as separate business units, those water and sewerage businesses have become an important part of the fabric of those councils' resources, not to be lightly excised. In particular, staff resources and expertise could be lost.
- b) Industry performance has been variable, as evidenced by the annual performance reports published by the NSW Department of Water and Energy (DWE). In the Discussion Paper for this Inquiry, outline statistics for performance of LWUs against the *Guidelines for Best Practice* are provided, and they imply that there is a direct correlation between the size of the business and its ability to achieve performance goals. Clearly, that is an oversimplification, since factors such as water sources and population density can have greater impacts than size as such. However it is possible that some characteristics related to a size of a water service provider could also be linked to the ability to meet various organisational goals. There are, of course, many other factors in play. Furthermore, the performance indicators themselves are unlikely, alone, to illustrate the exact nature of performance or patterns between various aspects of performance, and council characteristics.
- c) Current and future challenges are many, and they include: climate change, a skills shortage; increasingly stringent environmental and public health regulation; declining or static population in some areas and rapid populations growth in others; financial viability; technical and management capacity to address increasing complexity; dealing with the need for better integrated water cycle management; and competition for water. Overall, operating water and sewerage businesses can be expected to become more difficult in future, rather than easier, so the level of challenge will increase. Emerging trends are moving beyond Integrated Water Cycle Management (IWCM) towards Integrated Resource Planning (IRP) and the Fourth Generation of urban water management, which places increasing emphasis on life cycle assessment of assets and processes and risk management as it applies to financial, and reputational outcomes, as well as to human and environmental health. It also implies a more integrated and holistic approach to all facets of urban management.
- d) Implications for both water provider business and local council operational viability could be quite profound, especially if a dysfunctional arrangement is adopted. References in the Inquiry TOR, and in Ministerial comments, to self-sufficiency, imply that future water and sewerage businesses will have to be viable without State support, in the form of subsidies or other resources from the State Government. Tariff increases can help redress the balance for a water business which is not financially viable. Sometimes business improvement strategies can help too, but local circumstances will dictate what is achievable.

- e) Often, though, there are other, local factors which would help or hinder the push for economic sustainability. It is important to note that those jurisdictions which have comprehensive water and sewerage agencies (WA, SA, NT & ACT) achieve a positive rate of return by using metropolitan areas to cross subsidise rural and smaller regional communities. Given NSW's extant institutional arrangements, such an arrangement is not really an option, since metropolitan areas are already serviced by long-established state-owned enterprises.

- f) The tapestry of different socio-economic characteristics, pressures and vulnerabilities of local council communities across NSW is richly varied, so it is not practical to generalise about aspects of reform. The old cliché about "horses for courses" applies, and it seems likely that different options may suit different locations; which implies a period of detailed assessment and negotiation to reach consensus, or at least a degree of accommodation.

3) Assessment framework

The terms of reference for this inquiry specify a number of expected objectives for the overall arrangements, as well as for individual water service providers. There is a strong emphasis on whole-of-community outcomes, cost-effectiveness, sustainability, financial viability and self-sufficiency. This report addresses only urban water, sewerage and stormwater services in regional NSW; it does not consider irrigation supplies or bulk water deliveries. A typical urban water system would include all steps from “catchment to tap,” i.e. dams or river extraction works; raw water storage; water treatment; local reservoirs; distribution; sewerage; sewage treatment; reuse or disposal; stormwater collection and use or management.

The principles alluded to in the Terms of Reference are discussed below.

Whole of community outcomes

“Optimising whole-of-community outcomes” and “cost-effectiveness” are common goals of many reform and policy processes. In practice, these concepts embrace the overall impacts on society – defined at local, national, and global scales – to form the basis for decision-making.

There are various assessment frameworks that have been applied which aim to reflect the general principles. Examples and features include:

- **Triple bottom line:** economic, environmental and social impacts. Although “economic” in its broadest sense includes environmental and social considerations, these categories are intended to ensure that environmental and social outcomes that are not valued in markets are considered in decision making.
- **Stakeholder identification, community consultation and community engagement:** The impacts considered should include those affecting as wide a range of stakeholders as possible; not just limiting assessment of costs to financial costs incurred by the water service provider or local council.
- **Aggregation and distribution:** Different arrangements will result in different impacts for various stakeholders. A key decision metric is often the net (aggregate) benefit to the community. However, this is not necessarily the overriding criterion – distribution of impacts is also important for transparent and equitable decision-making.
- **Sustainability:** Social and environmental sustainability. These include inter-generational considerations; the principle of living today in a manner which does not impinge on the ability of future generations (or the environment) to maintain the same quality of life.

Fourth generation of water management

In terms of urban water planning and management, the principles and emerging practices of the "Fourth Generation of Water Management" can also help inform assessment of specific arrangements for water service provision. A separate paper by Davis (2008) details the evolution of urban water management, and the key attributes of Fourth Generation management include:

- Integrated resource planning (IRP), across all resources including, but beyond water - energy, transport, materials
- Life cycle analysis of materials, equipment and processes, which measures the net energy and other resource consumption associated with any particular choice, aiming to achieve an affordable result with the least environmental and energy impact
- Considering the water supply, sewerage and stormwater as integrated systems and thus recognising the potential for distributed (i.e. decentralised) infrastructure. This means smaller, neighbourhood facilities, located close to the source of wastewater and runoff, and also close to the demand, leading to smaller pipes, tanks and treatment systems
- Community engagement, in a way which empowers members of the community to participate meaningfully in establishing values and goals, assessing alternatives and being kept informed on the progress of decisions, directions and projects.

Institutional and management arrangements are perceived by practitioners as an absolute barrier to the adoption of practices which can enable a "water sensitive city" (Brown et al, 2007). In this context, a "water sensitive city" would be effectively one which implemented Fourth Generation Urban Water Management.

A book by Amato and Conti (2005) reviewed research into the economics of the water industry and it showed the considerable variation in outcomes, depending on local circumstances, as well as the general lack of consistency in correlations. For instance, they noted that, "cost savings could therefore be achieved through prudent mergers between nearby utilities." They found weak correlations in economies of scale, but noted a diseconomy of scale for utilities serving more than a million people. Based on empirical evidence, they noted, "there is some mild support for the existence of economies of vertical integration in the water supply industry, while a clear picture does not seem to emerge for the joint management of water and sewerage services. Nevertheless, the joint management of water and sewerage can be justified with the fact that it allows for a more effective environmental policy at river basin level." Addressing the extent to which consolidation should be pursued, they said, "Even if there is a large consensus on the necessity of reducing substantially the number of operators through the merger of utilities operating in nearby areas, it is not so clear how far this process of consolidation should go." Amato and Conti's work was published in Italy and drew heavily on European research, but included English, Japanese and US studies as well. They did offer the view that a logical business size for water would cover a "province," undoubtedly a unit a lot smaller than an Australian state and probably analogous to a compact County Council. Vertical integration implies one business providing all services, from water collection, treatment and distribution, through to retail connection to customers. For most NSW LWUs, of course, vertical integration is the norm, but some countries tend towards disaggregated businesses, which is discussed as a possible option, later in this report.

Amato and Conti could find only limited empirical evidence for economies of scope (i.e. having only one business to provide water supply, sewerage and stormwater services), the synergies between scope economies and the benefits of unified management across urban water components (water, sewerage and stormwater) and critical, related factors: landuse

planning, roads and catchment management, must be positive to deliver triple bottom line results, in particular, environmental and economic.

Apart from economies and benefits of scope across the delivery of water services, local councils are significant water users in their own right, from parks and playing fields, through to swimming pools, depots and civic buildings. An integrated business, embracing both water (in the broad sense) and community amenities, ensures that initiatives like BASIX and water sensitive urban design will be deployed in a collaborative way with water services to ensure achievement of Fourth Generation water management.

Assessment criteria

Drawing on the objectives specified in the terms of reference and the principles discussed above, there are four key dimensions of outcomes that could be affected by different water service provision arrangements:

- A) The business viability and sustainability of the water service provider
- B) Remaining local council operations – apart from water services
- C) The impact on local and regional communities
- D) Opportunities for integrating resource planning, management and operations, for sustainable, whole-of-community, outcomes. This includes integrated resource planning, as well as integration with general purpose council functions.

These assessment criteria are detailed below:

A) Water service business viability and sustainability

<p>TOR Objectives for arrangement:</p> <ul style="list-style-type: none"> • cost-effective • financially viable 	<p><i>Water business viability and sustainability</i> also relates to potential for meeting service provider standards as specified in TOR:</p> <ul style="list-style-type: none"> • financial self-sufficiency • compliance with health and environmental standards • respond and plan in advance 	<p><i>Triple bottom line:</i> Economic</p>
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There is a strong emphasis in the terms of reference for water service providers to be financially self-sufficient. However, conventional financial indicators of economic performance (e.g. ROA & economic real rate of return) do not, by themselves, capture the actual performance and potential for business viability and sustainability.

Indicators which would provide greater richness and relevance to assessment could include:

- infrastructure renewal gaps and maintenance gaps
- debt
- revenue raising capacity
- ability to service growth
- projected operating surplus
- technical and professional capacity for strategic planning.

Different arrangements will affect the potential for water service business viability and sustainability in various ways, including:

- Skill level, appropriate local knowledge, and hence productivity of staff providing water services (engineers, accountants, planners)
- Improved assessment, management, asset valuation, and planning for infrastructure maintenance, renewal and enhancement, taking into account the whole-of-life-cycle of assets
- Optimising tariffs structures and levels, in light of revenue, dividends, demand management and equity considerations.
- Transition issues
- Revenue raising capacity.

B) Remaining local council operations – apart from water services

<p>TOR Objectives for arrangement:</p> <ul style="list-style-type: none">• cost-effective - including costs on local councils• whole-of-community outcomes – including local councils and local employment• sustainability - ability of local council to manage activities for sustainability	<p><i>Triple bottom line:</i> Economic, Social, Environmental</p>
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Having water operations as part of council business provides a critical mass of human and physical resources which are mutually reinforcing. The work interest for an engineer in a small council is enhanced by having water as part of the service. Loss of a water service function makes the council vulnerable to loss of key staff for more challenging roles. Similar issues face other professional and trades staff in small councils. Loss of council's water service function might also have a negative impact on local employment.

C) The impact on local and regional communities

<p>TOR Objectives for arrangements:</p> <ul style="list-style-type: none">• cost-effective - taking into account impacts on local communities• whole-of-community outcomes – potential for community representation• sustainable - social and environmental sustainability	<p><i>Triple bottom line:</i> Economic, Social, Environmental</p>
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Small communities can be quite seriously impacted by the loss of local jobs and activities, as there is a knock-on effect from the diminished activity, in everything from schooling and housing to the viability of local businesses and services. Having the locus of control for water operations 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 a local community is reassuring. A factor not often acknowledged well enough is the impact during a transitional period. Current, major changes in SE Queensland's water structure have, for example, placed employees in the region under great stress and uncertainty.

D Integrated resource planning and management

<p>TOR Objectives for arrangement:</p> <ul style="list-style-type: none"> • cost-effective • whole-of-community outcomes - through integration of service planning and management, • sustainable - longer-term integrated planning, • IWCM. 	<p><i>Integrated resource planning and management</i> also relates to potential for meeting service provider standards as specified in TOR:</p> <ul style="list-style-type: none"> • compliance with health and environmental standards • respond and plan in advance • implement cost-effective service standards 	<p><i>Triple bottom line:</i> Economic, Social, Environmental</p>
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Each interface between one entity and another in the whole spectrum of planning for and providing community services and activities creates a potential barrier to achieving fully integrated service provision; IWCM; holistic planning including landuse planning and strategic community planning; and all the other desirable goals associated with Fourth Generation Urban Water Management.

4) Range of options canvassed

The possible options for rationalising NSW regional and rural water businesses are set out in Table 1 below. The option of privatised businesses has not been included, on the basis that councils and communities are opposed to full privatisation of essential/strategic infrastructure. There is a cultural dimension involved, in that water has more emotive connotations than other utilities. Moreover, the regulatory framework required to ensure public health, environmental outcomes and levels of service for water businesses entirely in private hands would be substantial, increasing transaction costs considerably.

#	Option	Outlines and examples
1	Regional “mandatory” alliance; i.e. pooling required, but nature of arrangements left to councils to resolve	LWUs must join alliances and pool resources. An example is the Weight of Loads Groups which operate among several dozen councils in NSW.
2	County Council – service provision only	Assets owned by councils, but operation provided by a council-owned and controlled entity under Local Government Act.
3	County Council – including asset ownership	As for 2, but County Council owns the assets.
4	Council-owned regional water corporation	As for 3, but a corporatised structure. Could have board members representing councils or nominated by both State and councils. The new Gosford-Wyong utility is an example of a State-dominated model.
5	State-owned regional water corporation	As for 4, but State is the only shareholder. The main example is Victoria, with 15 regional corporations.
6	Regional council aligned to catchment or sub-catchment	Amalgamated councils, operating over larger areas, but full service structure (water, sewerage and all other general purpose functions). This has been implemented in various locations around Australia.
7	Single, State-wide agency	An extreme version of 5, with just one agency for the whole of regional NSW. This would be similar to how WA, NT, SA and ACT operate. It could be a State department or a corporatised entity.
8	Disaggregated model – bulk supply, distribution and retail (i.e. the opposite of vertical integration)	Vertically disaggregated organisations, each dealing with part of the cycle. Victoria has separated bulk and wholesale suppliers for Melbourne, while Qld is setting up bulk supply; bulk distribution; grid management; and retailers for SEQ.
9	Status quo	Many independent, council-based water utilities; i.e. no change.

Among the nine options identified, several have attributes in common, so it is important to note that, although governance may differ between one option and another, many other attributes may be the same or similar. As well as broad-brush attributes for the various options, there are also some specific features which differentiate some options, while grouping others. These are set out in Table 2 on the next page.

Table 2 – Key attributes of the options considered									
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9
	"Mandatory" Alliance	County Council – ops only	County Council – owns assets	Council-owned regional corporation	State-owned regional corporation	Regional Council – catchment-based	State-wide agency	Disaggregated model	Status quo
Provision of Services	Mixture of councils and pooled staff	New county councils	New county councils	New regional entity	New regional entity	New, larger LWU / council	New, state-wide entity	Each delivered by a different business	Each council delivers its own services
Asset Ownership	Existing Councils	Existing councils	New county councils	New regional entity	State Government	New Council	New agency	Each business owns its assets, or existing Councils retain	Councils own their own infrastructure
Number to service NSW¹	Potentially 10 - 20	To be determined but likely to be 10 - 30	To be determined but likely to be 10 - 30	Depends on negotiation, but perhaps 10 - 30	State influence would probably constrain to 10 - 15 range	10 - 20, but 13 would align with CMAs, which are catchment-based	1	Could be State-wide, or regional. Perhaps 6-8 different businesses	107 maximum
Organisational Structure	MOU among participating councils. Small staff resource to supplement local resources	New county council under Local Government Act	New county council under Local Government Act	Corporation with board either (a) nominated by Councils, or (b) appointed by State	Corporation: Board appointed by State Government	General purpose councils under Local Government Act	Could be a Corporation or a State Government Department, most likely the former	State-owned corporations, each delivering one service, e.g. bulk water, deliveries, retailing.	Councils in term of Local Government Act

Notes: 1. Apart from 7 and, probably, 8, the options are not mutually exclusive, so different combinations could co-exist, and that could affect total number of businesses

Local council and service characteristics

The implications and appropriateness of a given model or option will depend on which councils join together. It is not a "one size fits all" situation, and detailed consideration of many factors will be essential to reach the best outcomes.

Key characteristics of communities and their services include:

- Total population
- Population density
- Nature of current water use (e.g. size of major users; efficiency measures to date)
- Council skill base
- Geographical remoteness
- Attributes of neighbouring councils which might be engaged in collaboration/

The scope of this report does not allow for a detailed analysis of community attributes, but is important to note that each regional arrangement will have to be weighed up in terms of the characteristics of both the communities involved, their relative sizes, distance apart, and all the technical factors of the water systems, as well as the factors listed above.

It is an over-simplification to characterise all small councils or water businesses as under-resourced and larger ones as well resourced, since many other attributes contribute to viability. However, current trends towards more stringent quality standards and regulation imply the need for an increasingly professional and well resourced staff or a contracting-in of skills; beyond what is accessible or affordable to small LWUs.

5) Option analysis and outcome

The options have been assessed individually on the four dimensions which were described above, and those analyses are provided below. Then, a table of opportunities and risks is provided to highlight differences and distinctive points.

1. "Mandatory" regional alliances

The regional mandatory alliance is a *minimalist* option, in that it imposes the least change on participating LWUs, which could retain ownership of assets; conduct local operations; and make local decisions. An agreed scope of pooled activities would be set up centrally and participants simply pay pro rata for their share of the services. This sort of alliance must be mandatory, or it risks falling apart in the face of difficulties or a lack of interest. On the chart, it can be seen that Option 1 leans towards delivering a restricted range of services, since member councils would deliver the balance themselves. That it not pre-ordained, but seems likely. Option 1 would help to provide crucial, pooled professional and technical resources, for planning, operations and perhaps design. There could be some economies of scale but, for LWUs currently under-resourced, the necessary funds to improve net resources would have to come from higher tariffs and other system improvements. Rating the dimensions and perspectives:

Option 1	Regional mandatory alliance
A) Business	A smaller business for the footprint than any other option, but sustained by member contributions.
B) Council	Council can retain most staff in water and rely on alliance for pooled resources – probably a net positive for council operation
C) Community	No major impact expected on communities. Some would house extra staff and facilities; others would see no change. Locus of control would remain local.
D) Integration	Good integration. Councils would have control over planning and operation of water and sewerage services which would be integrated into strategic planning and operations for councils' general purpose functions.

2. County Councils – service provision only

The County Council option, with assets retained by member councils, but services all provided by the County Council, can be set up in terms of the Local Government Act. Although owned by, and governed by, the partner councils through councillor representation on the board, the County Council is able to focus all its attention on delivery of water-related services. It is better placed than an alliance to create a viable business; not badly placed to achieve reasonable integration with other council activities; and retains a key link to its constituent communities. The interface between the County Council and councils as regards capital works could be problematic, as perverse incentives might be created and the balance between capital expenditure, planning and asset management might not be ensured. This sort of problem caused the 'Big Pong' at Bolivar sewage treatment plant in Adelaide, when the private operator and the asset owner had not worked out proper arrangements to deal with asset maintenance and renewals.

Option 2	County Councils – service provision only
A) Business	A County Council would be a viable, effective business, with a clear focus on its deliverables.
B) Council	Although councils would lose water staff, they would exercise control through representation on board.
C) Community	Head office location would benefit one community, while others would lose some people to the town hosting the headquarters.
D) Integration	Reasonable integration capability, since link between Councils and County Council should be quite strong. Planning functions should be seamlessly integrated, but asset maintenance and replacement can be more difficult to resolve.

3. County Councils – including asset ownership

This option differs from Option 2 in that the County Council becomes the asset owner, establishing it more securely as the key water entity. Midcoast Water is an example of this arrangement. This option has a significant advantage over 2 because there is no risk of perverse incentives to over- or under-spend on capital. Asset management is now a crucial function for a water business, and having ownership residing with someone than the operator is a challenge.

Option 3	County Council – owning assets
A) Business	As operator and asset owner, this County Council option would create a stronger business than Option 2.
B) Council	Council would incur the same personnel losses as for Option 2, plus the loss of assets. This could be seen as a loss of control, but it would also mean lesser liability for managing assets. However, constituent councils would be the “owner” of the county council and so indirectly owner of the assets. Local control would be ensured through councillor representation on the board. The county council could pay dividends to the constituent councils.
C) Community	Effectively the same community impact as for Option 2.
D) Integration	Better integration potential than Option 2, since water and sewerage asset management would be in the hands of the operator, removing potential for perverse outcomes on capital expenditure and maintenance.

4. Council-owned regional water corporations

Not very different from 4, since a similar range of council partners could come together and establish a corporation. Instead of falling under the Local Government Act, the body would be a company limited by guarantee under Corporations Law. If, as is the case with Gosford-Wyong in the Central Coast Corporation Act (NSW) 2006, the majority of board members are appointed by the State Government, then this option effectively takes the reins away from the constituent councils. If all or most of the board members are appointed by the owning councils, then control remains in local hands. In other respects, this option is very similar to 4. The crucial difference lies in board representation: a council-controlled variant provides greater local control.

Option 4	Council owned regional water corporation
A) Business	Corporations Law provides a strong governance platform and the business should be viable, not dissimilar to Option 3.
B) Council	Councils would have similar outcomes to Option 3, but, if a majority of board members was to be appointed by Government, as for Gosford-Wyong, there would be a net loss of control.
C) Community	Community impact very similar to Option 3.
D) Integration	Integration potential would be reasonable; better if councils controlled board; perhaps less if Government nominated majority.

5. State-owned regional water corporations

This option is effectively what has been implemented in Victoria, where 15 regional, state-owned corporations service the State. Functionally, this could be identical to Option 4, but it would be clearly a State-owned corporation and thus the board members would be selected by the Government. In Victoria, boards are nominally skills based, and some are, but there is a feeling that there is often a political element to appointments. The same situation would apply in NSW if this option were to be implemented. The major point of differentiation between this option and 4 would be the loss of local control.

Option 5	State-owned regional corporations
A) Business	As a business, this one should be the same as for Option 4. Viable if large enough. Potential for the State to demand dividends, as it does from Metropolitan water businesses.
B) Council	Practically, very similar to options 3 and 4, but a loss of local control would be felt. Also, there would be a loss of revenue stream for councils.
C) Community	Community impacts as for Options 3 and 4, but loss of engagement could occur, with a concomitant loss of confidence.
D) Integration	Less integration potential than the other regional options, since councils would have no control over planning, capital or operations of water and sewerage business, and the business would have no direct link to councils' strategic planning and operation of its other, general purpose, functions.

6. Regional council aligned to catchment or sub-catchment

It is not the function of this report to address council amalgamations, but the impact of removing water functions from councils and consolidating them in a bigger entity could be profound in some cases, so it is necessary to discuss the option of keeping the two together by amalgamating councils – the debate is ultimately for councils to conduct. This structure would be arrived at by amalgamating councils which fall within a given environmental catchment or sub-catchment and, where possible, aligning the boundaries to match the catchment's watershed lines. This option has two major advantages over the others: it retains all water-impacting functions under one roof (maximising the potential for achieving integrated water cycle management); and it allows local control and ownership of the business, under the banner of a general purpose council. This should provide economy of scope for the parent councils. It needs to be noted that there are already "amalgamated council/LWUs" created by previous amalgamation processes.

Option 6	Regional councils aligned to catchment
A) Business	Provided the amalgamated council was large enough, this would be as viable a business as options 3, to 5. The lack of focus compared to water-only businesses would be offset by the comprehensive and integrated nature of the council's planning and service delivery functions.
B) Council	The council should be larger and stronger, exercising full control over all its services; especially landuse planning. However, alignment to environmental catchments might not take account of structure and size of communities of interest; i.e. "social, economic, transport, landuse catchments etc".
C) Community	There should be no penalties on the community, and engagement through local ward councilors should be strong. Brisbane was an example of this structure, until the recent changes in SE Queensland institutional arrangements. There is some concern that councils could be too big for functional local decision making, utilisation of local knowledge, and localised provision of general purpose functions.
D) Integration	Offers the best prospects for integration, since council will control all water and related activities in its jurisdiction and can ensure coordination.

7. Regional, NSW-wide agency, 'Country Water'

This option could be a single, State-owned corporation, or a Government Department charged with delivering water services. This is effectively one end of the spectrum of Option 5. Unlike those jurisdictions (WA, SA, NT, ACT) which cover all communities (with some minor exceptions), this option, for NSW, would not enable the large population centres to cross subsidise small, regional ones; since metropolitan areas are already serviced by corporatised water businesses. Depending on how decentralised staffing and services were, this option could see a concentration of resources in one or two centres, at the expense of employment and activity in all the others. It would thus also represent the option most divorced from local inputs; while the sheer size of the organisation would create a risk of it wielding too much political control over water matters, pushing local concerns further into the background. Also at risk would be integration efforts.

Option 7	Regional NSW-wide agency, 'Country Water'
A) Business	The business would be so big that it would suffer diseconomies of scale, and it would have to deploy resources over large distances.
B) Council	Councils would lose all assets, staff and other resources associated with water; leading to a net loss in viability for smaller councils.
C) Community	Communities would lose some engagement and input at the local level and would see the business as being a more remote, State agency.
D) Integration	Probably the least potential for integration, but depending on how collaborative the agency is.

8. Disaggregated model – bulk supply, distribution and retail

This option would see a vertical division between services and functions, as is being implemented for South East Queensland and, to some degree, how Melbourne is currently serviced. It could have bulk water supplier(s); treatment and distribution entities; and retailers. The concept is drawn from the power and telecommunications industries and is not attractive for water. The disaggregation creates a major onus for coordination and opens the door to perverse incentives, such as are very evident in the power industry, where providers implement capital works and exercise monopoly power without optimising planning. The individual entities could be structured in various ways, but there are negative signs. Integration would be challenging; local control, ownership and input would probably be the weakest of all; and extracting dividends from all the players could result in price rises beyond those under other options.

It needs to be noted that some degree of disaggregation already exists in NSW with State Water providing bulk water supply and sharing some distribution functions with local water utilities.

Option 8	Disaggregated model
A) Business	Each business would be narrowly focused and granted monopoly power in its market, so would be viable.
B) Council	Councils would lose all water-related personnel, assets and income, unless granted retailer status.
C) Community	Having multiple, large, but narrowly focused players in the market would make community engagement difficult.
D) Integration	Very challenging for integration, given the disparate players and risk of perverse outcomes if they pursue their own agendas and do not collaborate.

9. Status quo

This is the option which has been flagged as unacceptable by Government, but which is where many current LWUs might prefer to remain. The total number of water businesses would probably be unacceptable to Government, although some individual councils would pass muster as being viable, delivering services which meet performance standards, and having the capability to achieve future-oriented goals, such as Fourth Generation water management. In terms of a mixture of options co-existing, this could be one which is able to persist for certain LWUs.

Option 9	Status quo
A) Business	Larger LWUs are viable and effective, but very small ones are not necessarily capable of delivering all water services and operating as professionally as is increasingly required.
B) Council	Councils have no change in scope or size, so unaffected. This is effectively the base case for comparing all other options.
C) Community	Community enjoys the same level of engagement and access that has up to now. Also a base case.
D) Integration	No change in integration, but under-resourced LWUs may not be able to deliver on goals such as Fourth Generation water management.

Table 3, below, pulls together the various options and highlights opportunities and risks.

Table 3 – Opportunities and Risks for the Various Options			
#	Option	Opportunities	Risks
1	“Mandatory” Alliances	Probably quite good returns on modest investments for partners	Being just a supplement to local resources, may not achieve a step change in performance
2	County Council – ops only	Provides good local control for councils	Some separation of powers, so may not achieve Fourth Generation level of integration
3	County Council – owns assets	Better integration of asset management with water system operation than for Option 2	Slightly less local control than Option 2
4	Council-owned regional	Quite good council control, along with good business size	Local control could be compromised by Government domination of board
5	State-owned regional	State would have to take responsibility for viability of business, so takes onus off councils	Major loss of local control – result of the lack of responsibility
6	Regional Council	Probably the best potential for achieving Fourth Generation water integration and local control	Have to accept some loss of local autonomy, i.e. amalgamations
7	State-wide agency	A large business and capable of exercising power	Councils would have to deal with a strong, State-wide agency and integration would be at risk
8	Disaggregated model	Focused businesses, achieving technical efficiency	Probably the worst option for achieving Fourth Generation water, since no guaranteed coordination or local control
9	Status quo	For strong players, the ability to carry on unchanged, and to aspire to Fourth Generation goals.	For LWUs not currently able to perform and lacking critical resources, unilateral Government action might be exercised, without consultation, to achieve reform.

Drawing on the analyses above, and qualitatively sorting the options into two groups, the potentially favourable options are, in no specific order:

- Option 1 – Mandatory Alliance
- Option 2 – County Council delivering services only
- Option 3 – County Council owning assets
- Option 4 – Council-owned regional utility as long as local control remains
- Option 6 – Regional Councils
- Option 9 – Status quo – but probably only for certain LWUs

The options which seem less likely to deliver on all criteria are:

- Option 5 – State-owned regional utility
- Option 7 – State-wide agency
- Option 8 – Disaggregated model.

This is not a rigorous discrimination among options and, for different circumstances, different judgements might be made. This implies that some options might suit some areas better than others, so two, three or even four options might co-exist across the State. Moreover, some options could be viewed as transitional. For example, a mandatory alliance might move on to become a County Council or even a regional Council, in time. Given the power of management fads, it is not inconceivable that a state agency could be broken up into regional units. Some options, of course, would be cemented strongly, and thus hard to change; such as a regional corporatised utility.

It is worth noting that, apart from Options 7 and 8, which rated poorly in the comparisons, all the options involved collaborative groupings of councils in one way or another. Realistically, only a few councils are likely to be allowed to continue with their status quo; the rest should ensure that they proactively engage with Government and their neighbours, to identify and advocate for a preferred option.

We have not attempted to analyse or identify the specific socio-economic impact on particular communities of the different options - as these will depend entirely on which options are chosen, the number of LWUs which are combined and the form in which they are combined - this is part of the process which should be conducted during the dialogue between councils. In light of the principles of community engagement and local input which have been espoused in this report, it could be consistent for the process of deliberation about reform to be conducted under the same value set. A facilitated and supported process of dialogue between councils in each region; and within councils, among their constituents, should be conducted, to allow for strong community ownership and, hopefully, consensus. Perhaps the \$64 question is how many entities, of whatever shape and style, should emerge from this process? The answer will clearly emerge from a process which is both political and analytical. It would be possible, given the necessary resourcing, for each potential grouping to be modeled and tested for sensitivity and probable outcomes. Different options might also yield different outcomes for different groupings, so it must be an iterative process. A realistic timeline must be developed, but it would seem likely to take a year of consistent application to reach a well considered and consensual verdict, provided all participants took a constructive approach and sufficient funding and human resources were made available by the State Government to support the deliberation.

6) Conclusions and Recommendations

- i) To achieve generally better outcomes for regional and rural water businesses across NSW, and especially to strive for the stretch target of Fourth Generation Urban Water Management (analogous to the Water Sensitive City), reform of the current LWU structure across the State appears necessary.
- ii) There are nine conceivable options to be considered (including the status quo), of which the most advantageous five are: Option 1 – “Mandatory” Alliances; Option 2 - County Councils delivering services only; Option 3 – County Council owning assets; Option 4 – Council-owned regional utilities as long as local control remains; Option 6 – Catchment based Regional LWUs, Council owned ; Option 9 – Status quo (for some LWUs); .
- iii) Various combinations of these options could co-exist across the State, selected to suit local conditions.
- iv) Some options could be adopted as transitional arrangements, leading to others. In any event, transition from the status quo to any reformed structure could be problematic and must be sensitively addressed to minimise uncertainty and collateral damage.
- v) In keeping with local engagement and consultation values espoused in this report, the selection of a suite of reform options to suit the regional and rural communities of NSW should be done in a well facilitated, consultative manner, supported financially by the State Government. A reasonable timeframe (12 to 18 months?) should be allowed for the processes to be completed.

Inquiry into secure and sustainable urban water supply and sewerage services for non-metropolitan NSW

Terms of Reference

Objective

To identify the most effective institutional, regulatory and governance arrangements for the long term provision of water supply and sewerage services in country NSW; and
Ensure these arrangements are cost-effective, financially viable, sustainable, optimise whole-of-community outcomes, and achieve integrated water cycle management.

The task

The State's 107 local water utilities are facing growing challenges, posed by drought, climate change, environmental water allocations, demographic shifts, technological advances and skill shortages. In view of the challenges facing the utilities, the Inquiry is to identify the most appropriate institutional and regulatory arrangements for the water supply and sewerage industry in NSW in order to ensure that services are efficient, reliable, affordable and safe. In particular, the Inquiry should identify arrangements that will enable customers of water utilities in regional NSW to benefit from a secure water supply, professionalism, cost effective service standards and regulatory safeguards in the provision of water supply and sewerage services. As a minimum, the Government expects water supply and sewerage service providers to:

- respond and plan in advance to the challenges facing the industry;
- be financially self sufficient;
- be able to comply with appropriate stringent environmental and public health standards; and
- implement cost-effective service standards.

In considering the merits of any new industry arrangements, the Inquiry should take into account:

- the historical structure of the industry and its performance record to date;
- the current and future challenges facing the industry;
- the present capacity of the industry to address those challenges;
- alternative industry arrangements used in other states;
- the impact of any changes on the financial sustainability of councils;
- the socio-economic impacts on the community, including indigenous communities, of any new institutional and regulatory arrangements;
- the relative performance of other states and their experience with industry reform;
- the institutional and regulatory options available, including the relative merits and drawbacks of each; and
- the role local, state and federal governments should play in further improving services.

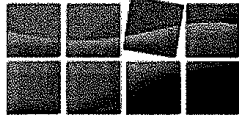
The Inquiry is to focus on the provision of urban water supply and sewerage in rural and regional NSW. Sydney Water, Hunter Water, Gosford City Council water supply authority and Wyong Shire Council water supply authority are excluded from the Inquiry.

NSW Department of Water and Energy, January 2008

References

Brown R, Farrelly M & Keith N 2007, *Summary Report: Perceptions of institutional drivers and barriers to sustainable urban water management in Australia* Report No. 07/06, National Urban Water Governance Program, Monash University.

Amato A, and Conti M 2005, *The Economics of the Water Industry: Technology, ownership and Efficiency*, Franco Angeli, Italy.



ATTENDANCE

Mr Paul Hickey (General Manager – Ballina – Chair), Mr Michael Rayner (General Manager – Tweed), Mr Don Buckley (Tweed), Mr Stuart McPherson (General Manager – Clarence Valley), Mr Jim Fear (NCW Manager Engineering Services), Mr Paul Muldoon (General Manager – Rous Water), Mr Wayne Franklin, Operational Services Manager, Rous Water) Mr Arthur Piggott (General Manager – Kyogle), Mr Graeme Kennett (Assets Engineer – Kyogle), Mr Brian Wilkinson (General Manager – Richmond Valley), Mr Gary Murphy (Director Works – Richmond Valley), Mr Paul O'Sullivan (General Manager – Lismore), Mr Garry Hemsworth (Executive Director of Infrastructure Services, Lismore), Mr Matthew Fanning (Manager Water Sewer and Waste, Ballina), Mr John Truman (Group Manager, Civil Services, Ballina), Ms Pam Westing (General Manager – Byron Council), Mr Phil Warner (Director, Water & Recycling Services), Mr Russell Kelly (Executive Officer, NOROC)

5 OVERVIEW

In relation to the State Government's *Inquiry into secure and sustainable urban water supply and sewerage services for non-metropolitan NSW*, the meeting proposed that NOROC be advised that the preferred alternative model to the existing structures, (assuming that the status quo was not acceptable to the Inquiry) was the creation of a new mandatory **Regional Water Alliance** to provide strategic management, delivery of the region's water and sewerage needs, and implementation of Department of Water and Energy Best Practice Guidelines, including responsibility for pricing regulation.

The meeting recognised that the footprint of the proposed Alliance may not be the same as NOROC.

All other responsibilities not taken up by the Regional Water Alliance would be delivered and managed by existing entities.

GOVERNING PRINCIPLES

The General Manager's Forum NOTED that a spirit of co-operation existed within the Northern Rivers towards providing positive solutions to the challenges outlined by the Terms of Reference of the Inquiry, and was willing to work with the State Government on implementing beneficial change.

NOTED the significant challenge facing the region to provide capital expenditure of some \$1 billion for water and sewerage infrastructure over the next 10 years.

NOTED that the model offered by the Northern Rivers ought comply with the inquiry principles set out in the January 2008 *Discussion Paper*, especially the intention that water utilities should 'achieve full cost recovery pricing practices that includes

provisioning for asset renewals and growth (also a key requirement of the National Water Initiative)¹.

30 AGREED that, on a regional basis Councils should act collectively to meet the community need for high standard water and wastewater services.

AGREED that ownership of infrastructure and assets and future planning should remain in the control of local communities, as it has been since municipal councils were created.

35 AGREED that any revenue stream generated by water and sewerage businesses ought be directed towards the present and future requirements of the local community.

40 NOTED that retaining the capability of local government to provide expertise in the engineering and asset management of water and sewerage infrastructure is vital in small communities, and therefore the inquiry criteria underlining the importance of limiting the 'socio-economic impact of any changes on communities'² was noted and strongly supported.

NOTED that any model must improve provision of water and sewerage infrastructure and services, not unnecessarily add another level of bureaucracy.

45 AGREED that any model should embrace *Fourth Generation Water Systems*, which moved to integrated water management with an emphasis on sustainability, decentralised, open decision-making, efficient technology (especially in the use of energy) and environmental protection.

PROPOSED MODEL – REGIONAL WATER ALLIANCE

50 The General Manager's Forum supports the creation of a new mandatory **Regional Water Alliance** responsible for the provision of strategic management and delivery of water and sewerage infrastructure and to determine pricing structures for all NOROC Councils.

Responsibilities not taken up by the Regional Water Alliance would be delivered and managed by existing entities.

55 The Alliance structure of local councils allows for selected common activities to be undertaken by the self-funded Alliance, which is owned by the participating Councils.

The nature of responsibilities and activities of the Alliance are to be subject to further discussion and clarification.

60 Under the model, councils collect revenues directly from consumers and pass on infrastructure contributions and running costs to the Regional Water Alliance.

¹ Inquiry into *Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan Councils – Discussion Paper*, NSW Department of Water and Energy, p. 11.

² *Discussion Paper*, pg 11.

Benefits of Model

- 65 • The Regional Water Alliance takes responsibility for the future provision and self-management of the region's water supply and infrastructure requirements, including the capital expenditure needs thus removing calls on the Government for capital subsidies.
- Local Communities benefit from better infrastructure provision and better regional planning including measureable economic, social and environmental outcomes.
- 70 • Pricing structures are determined regionally to meet capital expenditure, social and DWE environmental requirements.
- Commercially focused business, as per Inquiry *Discussion Paper*.
- Economies of scale on borrowings for infrastructure.
- Regional planning ensures infrastructure is provided when needed, without a need for State Government capital funding.
- 75 • Economies of scale in regional Integrated Water Cycle Management.
- Enables expert and professional governance and dedicated management for all local water utilities.
- Best practice management provided across entire region.
- Addresses skill shortages by pooling staff expertise.
- 80 • Ensures staff expertise remains in local communities for optimum socio-economic benefits for small communities, in particular.
- Demonstrable resource sharing among councils.

RJK

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Ends

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For Enquiries
Please Contact: Mr Mike Rayner

Telephone Direct (02) 6670 2415

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12 November 2007

The Hon Nathan Rees MP
Minister for Water Utilities
Level 25
9 Castlereagh Street
SYDNEY NSW 2000

Dear Minister

Water Reform

I refer to your letter dated 12 October 2007 requesting comment on the draft terms of reference attached to your letter.

Water management in Australia continues to undergo significant change. Increasing community interest and advocacy is generating on-going policy and operational refinement at all levels of government.

A review of structural arrangements in NSW is warranted given the increasing complexity and profile of the industry.

A fundamental pre-requisite to any review is the need to have an understanding and acceptance of the increasing integrated nature of the industry.

Water management is no longer just about water supply and sewerage. Contemporary 4th generation water management will be built around whole of water cycle solutions that deliver long term sustainable outcomes. This integration will include but not be limited to:

- Land use planning (growth and catchment)
- Development control standards
- Stormwater harvesting
- 3rd and 4th pipe solutions
- Household demand management
- Water and power usage optimisation
- Plumbing regulation
- Climate change initiatives
- Riparian land management

Recent structural changes in other states have ignored this aspect and in many respects are yesterday's models. The "economy of scope" offered by multi-purpose Councils should not be undervalued or dismissed.

Equally, "economy of scale" is required if sustainable whole of catchment outcomes are to be achieved. Over half of the water utilities in NSW have less than 3,000 connections. This is not sustainable.

It is my view that the fundamental challenge of the review is to achieve a balance between "economy of scope" and "economy of scale".

On this basis, I believe the objective of the review should be amended to give some emphasis to achieving integrated outcomes.

Tweed Shire Council looks forward to actively participating in the review process.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M Rayner', with a horizontal line extending to the right.

Mike Rayner
GENERAL MANAGER