

24 April 2026

Productivity Commission

Submitted via email waterreform2026@pc.gov.au

NSW Water Directorate submission – National Water Reform 2026 Call for submissions – March-April 2026

Thank you for the opportunity to make this initial submission.

The NSW Water Directorate is the peak industry body for 90 Local Water Utilities providing water and/or sewerage services serving 2 million people across regional NSW. Further information about us can be found at: <https://www.waterdirectorate.asn.au/aboutus>.

We wish to express our concern over the tight timelines for this review, which also occurred with the 2024 review. It is very difficult to understand a long list of questions and respond on behalf of a geographically diverse group of regional communities in the time provided. This runs the risk of smaller communities with less capacity not being given a voice in a matter of critical importance.

Local water utilities in NSW have the following attributes ‘at a glance’:

Table 1 - Features of the regional NSW urban water industry

<ul style="list-style-type: none">• 92 Local Water Utilities (LWU's)	<ul style="list-style-type: none">• 1.9 million population served in 890,000 homes and businesses
<ul style="list-style-type: none">• 782,000 square kilometres in aggregate catchment area	<ul style="list-style-type: none">• 380 water supply schemes
<ul style="list-style-type: none">• 300 sewerage schemes	<ul style="list-style-type: none">• 49 recycled water schemes
<ul style="list-style-type: none">• 312 GL per annum of water supplied	<ul style="list-style-type: none">• 160 GL of sewage treated

In the last decade, Local Water Utilities in regional NSW have faced significant challenges, with unprecedented threats to water security and water quality arising from drought, bushfire and flood. In 2019, the worst drought in 130 years of records saw 50 regional community water supplies at high risk of failure.

As indicated in the table above, Local Water Utilities own and operate hundreds of water treatment plants to ensure safe drinking water across vast catchment areas. The Water Directorate is calling for all water related agencies to collaborate and invest in water utility resilience for regional water providers through capacity building, improved water utility risk management and non-asset solutions such as digital technology.

While capital projects will continue to have an important part to play, short term non-asset solutions are required to monitor, predict, and mitigate risk while we prudently plan and invest in longer-term infrastructure solutions. Investment in regional water and sewerage services is under-funded and is becoming increasingly critical as infrastructure ages and service level expectations increase.

We respond to the questions in the PC's call for submissions as follows:

Information request Part A – NWI assessment

The NSW Water Directorate's responses to findings and key priorities identified in the PC's 2024 NWI assessment (Attachment C) are as follows:

1. Progress since the 2024 NWI assessment

- *What actions have jurisdictions taken in response to the findings and reform priorities identified in the PC's 2024 NWI assessment? Where has progress occurred?*
- *Where has progress been limited or slower than expected, or been reversed, and why?*
- *What policy, legislative, regulatory, funding or governance factors have influenced progress (positively or negatively), and how?*

NSW Water Directorate comments on specific findings and priorities by the PC as follows:

New South Wales

In the next three year NWI assessment period, New South Wales should:

- *obtain accreditation for its remaining eight water resource plans in the Murray–Darling Basin*
- *complete its planned rollouts of floodplain harvesting licences and AS4747 metering*
- *establish accurate, numeric long-term average annual extraction limits in water sharing plans for unregulated river systems*
- *continue its efforts to establish an agreement with the ACT Government to enable cross border trade between the two jurisdictions.*

Comment:

Water reform in regional NSW remains unfinished business. Four Water Resource Plans for the Gwydir Alluvium, Namoi Alluvium, Gwydir Surface Water and Namoi Surface Water remain subject to re-submission¹. Despite NSW Government funding through the 2019-2020 drought response and the 10-year Safe and Secure Water Program, drought and water security remain ongoing concerns for many local water utilities and regional NSW communities.

Despite active regulatory reform for local water utilities in NSW, especially water utility strategic planning and infrastructure construction works approvals, the regulatory framework has remained unnecessarily prescriptive and onerous, leading to significant delays in delivering infrastructure solutions. These delays have resulted in significant cost escalation for all projects.

There is insufficient funding in the NSW Safe and Secure Water Program to address current water security, public health and environmental risk. Whilst the National Water Grid Fund (NGWF) notionally can address water security and drought proofing projects, in practice, local councils and water utilities in NSW cannot apply directly to the Australian government. Rather projects need to be put forward through and formally supported by

¹ NSW Government webpage: Water resource plans, accessed 24 April 2026 available at: <https://www.water.dcceew.nsw.gov.au/our-work/plans-and-strategies/water-resource-plans>

the NSW government. This has led to significant overheads in business case development and a lack of attention to constructing water security infrastructure. In some cases, Local Water Utilities that experienced severe risks of total water supply failure during the 2017-2019 drought have been declined funding support.

Best practice water pricing and institutional arrangements – Finding 6.1

Some governments have moved away from NWI commitments to deliver cost reflective and consumption based pricing

Some jurisdictions have maintained or strengthened pricing regulation to focus on the long-term interests of end users, such as the Victorian Essential Services Commission’s application of the PREMO water pricing framework (performance, risk, engagement, management, outcomes) and the New South Wales Independent Pricing and Regulatory Tribunal adopting a 3C’s approach (customers, costs, credibility).

In some other jurisdictions, NWI pricing arrangements have been significantly eroded or remain well short of best practice. Jurisdictions that lacked independent economic regulation in 2021 have not taken steps to improve water pricing regulation. Further, a number of jurisdictions have weakened independent regulation through:

- *applying discounts or price caps to independently determined consumption based prices*
- *issuing ministerial directions that affect the decision making processes of independent regulators*
- *not using water price monitoring or review powers to determine if greater price regulation is needed.*

Comment:

As a part of the ongoing water reform agenda, in August 2023 the NSW Minister for Water requested the NSW Productivity and Equality Commission (the PEC) undertake a [Review of funding arrangements for Local Water Utilities](#) across NSW², which was delivered in July 2024. In August 2025 the government released its [NSW Government response to the PEC recommendations](#)³.

The PEC identified the need to reform the NSW Government’s funding approach to the LWU sector to better target and meet the needs of the sector, noting that LWUs are council-owned businesses and their management and financial sustainability rests squarely with local councils. The PEC proposed significant changes to how LWUs are funded and associated improvements to regulation and strategic planning.

Local Water Utilities are subject to a [Regulatory and Assurance Framework](#)⁴ that does not regulate prices but sets an expectation that water supply and sewerage prices should recover the efficient costs of providing the service. So far, there is no established minimum standard or Basic Level of Service (BLoS) for the provision of water and sewerage services in NSW, although the development of a BLoS was a key recommendation (Recommendation 15) of the PEC, that the NSW Government has ‘supported in principle’.

² Available at: <https://www.nsw.gov.au/departments-and-agencies/nsw-productivity-and-equality-commission/document-library/review-of-funding-models-for-local-water-utilities>

³ Available at: <https://www.water.dcceew.nsw.gov.au/our-work/local-water-utilities/local-water-utility-reform>

⁴ Available at: <https://www.water.dcceew.nsw.gov.au/our-work/local-water-utilities/regulatory-and-assurance-framework>

In its earlier Issues paper⁵, at Section 1.3, the PEC considered alternative funding models that might address the lack of economies of scale and improve water resilience:

Of the 85 LWUs in NSW, almost 72% are relatively small or very small (having less than 10,000 connections).¹ This means LWUs often do not have the financial resources (e.g. they face challenges in cost recovery) or organisational capability to provide more complex functions, such as designing and constructing water infrastructure. Their size may also mean they lack the scale to improve resilience of water systems and ensure water is secure and sustainable for their customers, and to maintain the actions necessary to protect their communities in the long-term.

One solution may be greater collaboration among LWUs when delivering their water and sewerage services. For example, leveraging current collaborative frameworks (e.g. Joint Organisations, county councils and regional alliances) to provide whole of catchment water quality monitoring and share technical expertise. There may also be benefits from broadening collaboration across government agencies, for example between State Owned Corporations, LWUs and regional stakeholders in water reliant industries to better co-ordinate delivery of water services and infrastructure.

Optimising the funding of LWUs may also address economies of scale, as well as improve water resilience and drive better performance. Many smaller and remote LWUs are unable to cover their costs through user charges. However, the current approach to state government funding – focused on capital grants or meeting critical water needs during times of drought – means long term sustainability is not addressed.

Shifting to a more targeted, whole of investment life cycle funding model could assist LWUs provide better water and sewerage services to their customers. It may involve LWUs receiving a mix of capital grants and CSO payments to cover their efficient costs of achieving minimum service levels. Eligibility could be based on system risks or financial need. For example, funding for CSO payments could take into account

- *number of connections*
- *remoteness and socio-economic score, and*
- *incentives to improve performance.*

This funding could be adjusted to factor in the availability of other funding sources for LWUs, such as TCorp loans. Further, funding could be combined with better operational support for LWUs, such as access to skills training and newer technologies.

PEC, Feb 2024

Cost reflective pricing cannot be achieved for many small water utilities in regional Australia. External funding is required in the form of an explicit Community Service Obligation.

⁵ Available at: https://www.nsw.gov.au/sites/default/files/2025-09/alternative-funding-models-for-local-water-utilities-issues-paper_0.pdf

Best practice water pricing and institutional arrangements – Finding 6.2

Some government decision making for major water infrastructure is not fully compliant with the NWI

The NWI requires governments to be satisfied that infrastructure investments are economically viable and ecologically sustainable. To be consistent with these principles, investments should be rigorously assessed, comparing all options available to meet identified needs. Ideally, this would also involve a transparent, independent assessment of proposals.

This is currently not being achieved by all parties to the NWI, and the commitment to these principles appears to be waning:

- *A significant proportion of major infrastructure developments funded by governments since 2021 have not been subjected to a transparent assessment of the costs and benefits of the proposal, or to independent scrutiny of business cases.*
- *Further, a number of successfully funded investment projects – including those funded under the Australian Government’s National Water Grid program – were funded even where the assessed costs of the project outweighed the estimated benefits to the community.*

Comment: It is important to note that traditional benefit-cost assessments have not always captured the significant social and economic costs that can accrue with total town water supply failure that must be avoided under any circumstance. Water is an essential service critical to human life and cannot afford to fail. Regional NSW provides strong GDP per capita, across industries including mining, tourism, and food production but the rate base in many small communities on its own is too low to cost effectively deliver water and sewerage services.

Integrated management of water for environmental and other public benefit outcomes – Finding 7.1

Environmental and other public benefit outcomes are inconsistently specified

There remains a lack of specificity about environmental outcomes defined in water plans, their level of detail and indicators.

Other public benefit outcomes continue to be undefined or defined only at a high level. While the achievement of environmental outcomes can also contribute to other public benefit outcomes, such as recreational opportunities, amenity benefits and public health, the Commission has found no clear long-term performance indicators specified linking these outcomes.

Comment: In March 2025 the NSW government published a new best-practice guide to [Integrated Water Cycle Management](https://www.water.dcceew.nsw.gov.au/our-work/plans-and-strategies/integrated-water-cycle-management-iwcm)⁶. On its website the NSW government concedes that *in practice, constraints on resourcing, funding, and capability mean that decision-makers, at smaller councils and for small scale development, must choose where best to act.* Investment in integrated water management solutions needs to be financially supported and incentivised for small communities to ensure an equitable outcome.

⁶ Available at: <https://www.water.dcceew.nsw.gov.au/our-work/plans-and-strategies/integrated-water-cycle-management-iwcm>

Urban water reform – Finding 9.1

Some regional and remote areas still do not have access to safe drinking water supply

There continue to be drinking water quality issues in some remote areas of Australia caused by exceedances in the chemical health standards outlined in the Australian Drinking Water Guidelines. In addition, exceedances of aesthetic parameters such as colour, palatability have led to acceptability issues. This is leading to a loss of confidence in the water supply amongst the community in these areas.

Comment: This is particularly apparent where small communities require capital funding to provide filtration for unfiltered water supplies. For reduction of some aesthetic parameters, such as sodium for the health of Aboriginal communities, advanced technologies such as reverse osmosis are very difficult and expensive for small communities to own and operate without a Community Service Obligation to help support service provision. Numerous groundwater supplies for the provision of drinking water for small communities remain chlorinated but unfiltered.

Urban water reform – Finding 9.2

There continues to be a lack of consistency and transparency in relation to the publication of drinking water quality data

The detail, consistency and availability of drinking water quality reports continues to vary for regional and remote areas.

There have been improvements to the publication of data across all Australian Drinking Water Guidelines standards for the regions and communities serviced by Power and Water Corporation in the Northern Territory. Also, from July 2024 water service providers with under 10,000 connections will now report on the water quality risk management guidelines used as part of the National Performance Report.

Further development is required to centralise the reporting of drinking water quality indicators, such as percentage of the population where microbiological compliance was achieved, percentage of the population where chemical compliance is met, and the number of boil water alerts issued.

Comment:

The Water Directorate supports consistent and transparent sharing of drinking water quality data and reporting across jurisdictions. This is critical for maintaining transparency and trust with all communities.

2. Barriers and emerging risks

- *What policy, legislative, regulatory, funding or governance barriers are affecting progress towards NWI outcomes in your jurisdiction or operating context (including how responsibilities, decision-making and oversight are organised)?*
 - ▶ The responsibility for water security and catchment water quality
 - ▶ Regulate vs support for small water utilities
 - ▶ Funding for water security, drinking water quality to achieve a basic level of service
- *What emerging risks are currently affecting, or over the next three years could affect, NWI water reform objectives and outcomes?*

- ▶ The ability to support population growth and economic development in regional areas is becoming much more challenging particularly due to the advent of renewable energy zones, data centres and other forms of economic development without enough regard for infrastructure investment to sustain water and sewerage service provision.
- ▶ The intensity of drought remains a current risk to many towns after the 2017-2019 drought. Significant long-term investment is required.
- ▶ Contaminants of concern such as PFAS have not only affected drinking water quality plans, but where water sources, particularly groundwater are isolated from future use, the water quality challenge also becomes a water security challenge unless alternative water sources can be found. PFAS is commonly found in many consumer products with potential to be transmitted into sewage and onward to recycled water and biosolids. The costs of managing PFAS contamination should not be borne by the water sector as it isn't the primary source of contamination. Indeed most PFAS hotspots in Australia are Commonwealth (Defence) or State (Fire Authority) owned.
- ▶ Town water security planning and investment remains fragmented and shortfalls remain under-recognised. Whilst there are a number of water security initiatives such as:
 - The National [Town and City Water Security Framework](#),
 - The [National Water Grid](#) fund,
 - State programs through the [Town Water Risk Reduction Program](#) and [Safe and Secure Water](#) program,

proposals for Commonwealth funding must be submitted by state and territory governments, which is not always efficient or effective. The NSW Water Directorate strongly supports Commonwealth funding being provided directly to local government water utilities for appropriate funding and delivery of local projects. Collaboration and co-design of regulatory and funding arrangements with Local Water Utilities is imperative for local capacity building and fit-for-purpose infrastructure solutions.

- ▶ The capital grant funding environment for NSW Local Water Utilities has become extremely uncertain with the Safe and Secure Water Program concluding in 2028. The regional water and sewerage sector needs both a capital grants program and an explicit Community Service Obligation supporting small community water and sewerage services to assure sustainability and for equity of service between regional communities and metropolitan areas.

3. Forward reform priorities (next three years)

- *From your perspective, what 1–3 water reform priorities would most improve outcomes in your jurisdiction or operating context over the next three years?*
 1. Introduction of a minimum service standard, a Basic Level of Service for small communities
 2. Establishment of a Community Service Obligation for communities that cannot cover the costs of meeting a Basic Level of Service
 3. Develop a national picture of the status of town water security and drinking water quality for small communities to inform the funding priorities of the Commonwealth government

Information request Part B – Secure, resilient and sustainable services

Overall questions

- *Which elements of current water service arrangements (for example, pricing design, regulatory oversight, funding mechanisms, or governance arrangements to promote accountability and transparency) are working effectively?*
 - *What evidence or examples demonstrate this performance?*
 - *What objectives and goals are these arrangements achieving well?*

Regulatory reform for local water utilities in regional NSW, particularly in relation to strategic planning and infrastructure construction approvals, has only sustained unnecessarily prescriptive and onerous regulation, leading to significant delays in delivering infrastructure solutions. Independent review of regulatory performance is important. This was last reviewed in regional NSW by the NSW Audit Office in 2020⁷.

Applying minimum service standards to small, decentralised communities is potentially problematic if a one-size fits all approach is taken with the extension of reticulated water and sewerage services. Providing reticulated services to small communities has significant diseconomies that end up being borne by larger communities. A balanced approach is required, with a view to supporting water security and safe drinking water with fit-for-purpose solutions at a domestic scale. Expensive infrastructure should not be forced onto small, regional or remote communities unless they can be supported by a Community Service Obligation.

- *Are there specific aspects of current water service arrangements, in particular regions or jurisdictions that create material risks, inefficiencies or misalignments?*
 - *What consequences have you observed, and who is affected by them?*
 - *Do you anticipate any risks, inefficiencies or misalignments increasing in the future, and if so, why?*

Local Water Utilities, like most water utilities in Australia are covered by numerous Acts of state legislation:

- ▶ Local Government Act 1993
- ▶ Water Management Act 2000
- ▶ Public Health Act 2020
- ▶ Protection of the Environment Operations Act 1997
- ▶ Work Health and Safety Act 2011
- ▶ Dams Safety Act 2015
- ▶ Environmental Planning and Assessment Act 1979
- ▶ Water Act 2007 (Commonwealth)

There are numerous regulating agencies with potentially duplicated and competing regulatory requirements affecting water utilities. The consequences of misalignment are difficulties in addressing key risks to water and sewerage services, a lack of a strategic approach to these priorities amongst state regulators which leads to delay in investment in the highest priority solutions for regional communities.

⁷ NSW Audit Office (2020) *Support for regional town water infrastructure*, available at: <https://www.audit.nsw.gov.au/our-work/reports/support-for-regional-town-water-infrastructure>

- *How do current arrangements affect how trade-offs are made between service reliability, long-term financial sustainability, affordability and any other objectives?*
 - *Are there objectives and goals that are not being achieved as successfully as others, and if so which ones?*
 - *How might these tradeoffs become more acute over the medium to long term (for example, due to climate change, population growth, new or expanding water intensive industries, or emerging demand profiles), and how well are current arrangements positioned to manage these pressures sustainably?*
 - ▶ Local water utilities continue to have trouble addressing water security for critical human needs. Regulatory and funding reform is imperative to reduce risk. Numerous small water utilities in regional NSW are unable to recover the full cost of service provision. Significant financial support is required from the state and Commonwealth governments to sustain essential water and sewerage services.
 - ▶ The trade-off between water security, drinking water quality and environment whilst maintaining financial sustainability remains challenging for small regional water utilities. As discussed earlier in this submission, these challenges can be exacerbated by additional unplanned demand for water services from proposals such as renewable energy zones, mine expansion, data centres, inland rail development or state-led strategic activation precincts for residential development or employment zones.
- *How well do current arrangements support safe, secure and culturally appropriate water services for Aboriginal and Torres Strait Islander communities?*
 - ▶ NSW continues to have a safe, secure and culturally appropriate support program under the [Aboriginal Communities Water and Sewerage Program](#)⁸. It will be important to review and continue the program beyond its current 25-year horizon of 2033.
- *Are there specific reforms to water service arrangements that would materially improve outcomes?*
 - *What problem would the reform address, and what implementation challenges or risks should be considered?*
 - ▶ Regulatory reform for local water utilities in regional NSW needs to take a new direction. Prescriptive, directive regulation has not worked for small water utilities. Support and capacity building needs to be prioritised above and beyond prescriptive regulatory practices to improve service levels for regional and remote communities in NSW. Grants and subsidy must also continue for investment in regional town water and sewerage infrastructure in both small and large regional communities to sustain the performance of the regional Australian economy.

⁸ Website: <https://www.water.dcceew.nsw.gov.au/our-work/projects-and-programs/aboriginal-water-programs/aboriginal-communities-water-and-sewerage>

Theme 1: Pricing and economic regulation

This theme examines whether pricing and regulatory frameworks support efficient investment, cost recovery and appropriate risk allocation.

Trade-offs between policy objectives

- *How do current pricing determinations meet and balance different objectives relating to service reliability, longterm financial viability, affordability and any other objectives (e.g. cost recovery, asset renewal, monopoly price regulation, social equity, addressing disadvantage, environmental outcomes, liveability or other customer priorities)?*
 - ▶ We represent Local Water Utilities in regional NSW who are not subject to price regulation, with the exception of Central Coast Council.
- *How are trade-offs made during the price setting process, especially between long-term objectives (such as those relating to asset expenditure and renewal) and short-term social equity objectives (such as affordability)?*
 - ▶ As above.
- *Are broader policy objectives (such as housing growth or emissions reduction) clearly specified in pricing decision processes? If so, how?*
 - ▶ As above.
- *How is affordability defined, considered and assessed in practice in price setting processes? Is affordability primarily addressed through targeted measures for customers experiencing hardship or vulnerability, through average/broader price moderation for all customers, a combination of both, or otherwise?*
 - *What trade-offs arise between these approaches?*
 - *How are distributional impacts assessed and monitored?*
 - ▶ Whilst confirming local water utilities in NSW are not price regulated, we would state that achieving affordability comes at the expense of achieving basic levels of service in regional NSW. Existing targeted hardship measures are far more favourable to metropolitan NSW than regional NSW, as acknowledged in the NSW Productivity and Equality Commission's [Review of funding models for local water utilities](#)⁹.

Incentives and efficiency

- *How do current regulatory settings support efficient and prudent capital and operating expenditure?*
 - ▶ We rely on the NSW PEC report, stating that there are numerous needs and opportunities for reform to improve water services for regional NSW. In particular, we support a risk-based, 'needs-based' approach to funding local water utilities whilst ensuring prudent and efficient capital and operational investment.

⁹ Available at: <https://www.nsw.gov.au/departments-and-agencies/nsw-productivity-and-equality-commission/document-library/review-of-funding-models-for-local-water-utilities>

- ▶ It should be recognised that local government owned water utilities in regional NSW make decisions and are accountable to community needs and priorities they serve through the NSW local government [Integrated Planning and Reporting framework](#).
- *What, if any, aspects of current settings create incentives for decision-making that leads to inefficient outcomes?*
 - ▶ The term ‘affordability’ leads to the concern that price rises to fund important service level improvements or maintain service levels should be curtailed. This represents a significant threat to the long term sustainability of water and sewerage service provision in both metropolitan and regional areas.

Process and regulatory burden

- *Are pricing review and economic regulatory processes proportionate to the risks being managed?*
 - ▶ We represent Local Water Utilities in regional NSW who, apart from Central Coast Council, are not subject to price regulation.
- *What administrative, planning, management or compliance costs arise from current pricing review and economic regulatory processes, and who bears them?*
 - ▶ As above.
- *How do regulatory timeframes support or affect investment certainty or service delivery?*
 - ▶ This remains a significant issue for local water utilities in regional NSW in 2026. Regulatory certainty between numerous regulating agencies and numerous competing requirements hinder water and sewerage infrastructure delivery and the improvement of service levels.

Theme 2: Governance, accountability and coordination

This theme considers whether governance arrangements support clear accountability and integrated system outcomes.

Roles, responsibilities and accountability

- *How clearly defined are the differing roles of governments, regulators and service providers? How well are these roles communicated to customers and the general public?*
 - ▶ Local government in NSW has a strong system of accountability to our water service customers and local communities through the [NSW Integrated Planning and Reporting Framework](#)¹⁰. Unfortunately, this is not well recognised by co-regulating agencies outside of the NSW Office of Local Government. The processes and approaches applied by large metropolitan water service providers for customer satisfaction do not apply to regional areas due to our small population. The local

¹⁰ Available at: <https://www.olg.nsw.gov.au/councils/policy-and-legislation/integrated-planning-and-reporting>

government framework empowers Councillors to be community representatives, and ensure strong local connection and accountability with the communities we serve.

- *Are responsibilities between levels of government and different agencies sufficiently clear, including in discrete or remote communities?*
 - ▶ There isn't a clear picture or strategy for supporting local water utilities in NSW that would inform risk based investment. The NSW [State Infrastructure Strategy](#)¹¹ recognised the shortfalls in water security in regional NSW. However local water utilities need to meet numerous other agency requirements for safe, secure, affordable and well-managed water services. Agency requirements often conflict and insufficient regard is paid to the costs of compliance. As a consequence, costs are regularly shifted from Commonwealth and State governments onto local government owned water utilities, impacting the financial sustainability of local government service provision.
 - ▶ Service standards for on-site and decentralised systems for remote communities are not clear. There is limited to no financial support for communities that are not connected to a publicly owned water or sewerage service. Service standards, current performance and needs for these communities warrant investigation, especially where reticulated water and sewerage services are not able to be provided.
- *Are there areas of overlapping or fragmented responsibilities, and if so, what consequences arise?*
 - ▶ We have discussed overlapping responsibilities and fragmented responsibilities above.
- *How well do existing accountability mechanisms (such as economic regulation, performance reporting, ministerial oversight or board governance) drive measurable performance improvement?*
 - ▶ There is limited evidence of active performance improvement collectively for regional NSW since 2016. Data is collected, but action planning has not been supported with regional NSW water utilities.
- *How well do these accountability mechanisms engender broader community and customer trust in water service decision-making?*
 - ▶ As discussed above, local government in NSW is accountable through the [NSW Integrated Planning and Reporting Framework](#). For small communities, funding and access to specialist skills are key limitations to making robust long-term investment in water service improvement.
- *What reforms would strengthen governments' accountability and improve outcomes?*
 - ▶ Regulation of water utilities serving small communities needs to be fit-for-purpose, supporting essential, business-as-usual operations and asset management. Small

¹¹ Available at: <https://www.infrastructure.nsw.gov.au/expert-advice/state-infrastructure-strategy/>

regional and remote utilities would benefit from catchment level water security and water quality planning which are beyond their boundaries and scope of control.

- *Are there formal partnership arrangements in place between Aboriginal and Torres Strait Islander people and governments to support joint decision-making? How could these partnerships be strengthened?*
 - ▶ NSW has arrangements in place through the [NSW Aboriginal Water Strategy](#)¹². This reflects the NSW Government's commitment to working with Aboriginal peoples to deliver water related cultural, spiritual, social, environmental and economic benefits to Aboriginal communities.
 - ▶ The [Aboriginal Communities Water and Sewerage Program](#) is invested in improving the health and wellbeing of residents of 63 eligible Aboriginal communities across the NSW by providing safe and effective water and sewerage services.

System coordination

- *How do current arrangements support effective coordination between:*
 - *water supply, wastewater and stormwater services (including recycled water and other options)?*
 - *water services provision and land-use planning systems?*
 - *service providers and economic regulators?*
 - *economic, environmental, health and other relevant regulators?*
- ▶ Current arrangements do not support effective coordination for regional NSW water and sewerage service provision. We refer to comments made earlier in this submission.

Theme 3: Regional, remote and equity considerations

This theme examines challenges and equity considerations outside major urban centres.

Financial sustainability and viability

- *What structural or other factors (such as scale, customer density, workforce constraints or source water variability) affect provider viability?*
 - ▶ This is a question that has been answered in responses in 2010, 2020, 2024 and now 2026. There is significant consultation fatigue. We refer to the work of the NSW Productivity and Equality Commission referenced earlier in this submission.
- *How well do current funding and governance arrangements reflect higher per customer costs in regional or remote settings?*
 - ▶ We refer to the work of the NSW Productivity and Equality Commission referenced earlier in this submission.
- *How well and how consistently do current funding arrangements encourage efficient delivery of services (i.e. long-term lowest cost?)*

¹² Available at: <https://www.water.dcceew.nsw.gov.au/our-work/projects-and-programs/nsw-aboriginal-water-strategy>

- ▶ We refer to the work of the NSW Productivity and Equality Commission referenced earlier in this submission.

Service equity

- *How well designed are pricing and community service obligation arrangements to transparently balance cost recovery and affordability?*
 - ▶ Effective CSO obligations are yet to be designed and implemented in regional NSW. We refer to the work of the NSW Productivity and Equality Commission referenced earlier in this submission.
- *What reforms would improve equity outcomes (e.g. for those communities systematically experiencing lower service standards) without undermining financial sustainability?*
 - ▶ We refer to the work of the NSW Productivity and Equality Commission referenced earlier in this submission. We fully support all of the recommendations of the NSW PEC and look forward to their implementation by the NSW government.
- *What have been the implications of lower service standards and reliability in regional and remote communities, such as on economic and social outcomes?*
 - ▶ The impacts of drought and water quality shortfalls have been significant. The consequences of total water supply failure, as was the potential in regional NSW in 2019 were too high to contemplate. Numerous communities continue to experience poor drinking water quality, which could largely be described as compliant with critical health requirements but not with ‘aesthetic’ requirements such as colour, sodium.

Alternative models for service provision

- *What, if any, alternative service provision models (such as aggregation, collaboration, separation of functions, regionalisation or system operator models) are likely to improve performance in your context, and why?*
 - ▶ The Water Directorate’s position is:
 - Over time, many studies on water services for regional Australia have implied that the only way to achieve sustainable water supplies for smaller communities is with economies of scale. That can be interpreted to mean that the control of water services must be taken away from local communities. Most communities want to be empowered and supported to solve their problems locally. Regional aggregation will not address geographic dispersion and diseconomies of scale.
 - In the absence of structural reform, we advocate for incentivised regional collaboration through programs similar to Queensland’s [QWRAP](#)¹³.
 - There are existing functional collaboration arrangements in regional NSW for local government:
 - [Joint Organisations](#)
 - Four county councils providing water services across multiple council boundaries

¹³ More info: <https://qldwater.com.au/qwrap> and *Water funding for regional councils extended permanently* <https://statements.qld.gov.au/statements/94120>

- A water utilities alliance for councils in north west NSW: [Western Councils Water Alliance](#)
- *What problem(s) would any changes address, and what transition risks or costs should be considered?*
 - ▶ The main transition cost with local government owned water services in regional NSW that has always been overlooked is the impact of removing economies of scope in regional and remote communities from local government, which would cause many regional councils to financially fail. The Commonwealth currently has an inquiry on foot¹⁴.
- *What examples are there of (alternative) service provision models that would support self-determination for Aboriginal and Torres Strait Islander communities and drive improved outcomes in regional and remote areas?*
 - ▶ The Water Directorate supports self-determination. We are involved in a training and capacity building pilot program for Aboriginal water industry operators in partnership with NSW DCCEEW and NSW Aboriginal Affairs that will take some years to deliver.

Theme 4: National consistency and intergovernmental coordination

This theme considers whether, and if so how, greater national alignment and/or intergovernmental coordination would improve efficiency, investment certainty, consumer outcomes, or other key objectives of water service provision arrangements.

- *Do differences between jurisdictions create compliance costs or inefficiencies, and if so, how?*
- *In which areas would national consistency deliver net benefits?*
- *Where is jurisdictional flexibility most important, and why?*
- *How should the benefits of flexibility for individual jurisdictions be balanced against nation-wide benefits from greater national consistency?*
- *How could intergovernmental coordination/collaboration be strengthened without increasing regulatory complexity?*
 - ▶ We would support national harmonisation, which in some ways has already occurred through the Australian Drinking Water Guidelines, Australian Guidelines for Recycled Water.
 - ▶ Nationally, the importance of water for critical human needs has been under-recognised in Commonwealth planning, including the Murray Darling Basin Plan.
 - ▶ There are numerous examples of cost-shifting¹⁵ from the Commonwealth and NSW governments onto local government. The most recent example is the imposition of increased dam safety requirements, the costs of which need to be recovered by local government water and sewerage charges. Addressing contaminants of concern such as PFAS must also be funded based on the 'polluter-pays' principle

¹⁴ Parliament of Australia, *Inquiry into Local Government Funding and Fiscal Sustainability* launched 6 November 2025 <https://www.aph.gov.au/LocalGovernmentFunding>

¹⁵ Morrison Low (2025), *2025 LGNSW Cost Shifting Report – How State Costs Consume Council Rates*, available at: <https://lgnsw.org.au/Public/Public/Advocacy/Cost-shifting.aspx>



Thank you for the opportunity to make this submission. We consent to this submission being published in the public domain.

For further information, please contact Executive Officer Brendan Guiney

Yours sincerely,

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Water Directorate

