On 15 August 2007, the NSW Minister for Water Utilities Nathan Rees announced an Inquiry into the Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW. The NSW Department of Water and Energy issued a Discussion Paper entitled *Inquiry into the Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW* in January 2008. The Discussion Paper (2008, p.7) *inter alia* set out the 'case for the inquiry' by arguing that the NSW *Best-Practice Management of Water Supply and Sewerage Guidelines* represented the 'key instrument for driving performance improvement by local water utilities'. While more than 85 per cent of larger NSW water utilities, defined as utilities with over 10,000 connected properties, complied with these *Guidelines*, 'compliance by smaller water utilities is significantly less'. By contrast, only 53 per cent of '52 utilities with fewer than 3,000 connected properties' complied fully with the *Guidelines* (p.8). On the basis of this information, the Discussion Paper (2008, p.7) argued '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'.

While the NSW government has yet to make a decision on whether or not to 'regionalise' non-metropolitan water authorities, the Tasmanian government has moved down the same path. One predictable consequence has been a sharp deterioration in the fiscal viability of the affected councils. This suggests that claims centred on the efficiency gains from 'regionalisation' of municipal water authorities should be tested carefully. In general, it would appear that the 'regionalisation' of local water authorities will inflict economic and social damage to non-metropolitan LGAs, as well as their local councils. This should be carefully considered since water revenue often represents a high proportion of total council income.

Secondly, gains from 'regionalisation' must be carefully considered. In the context of the Australian water sector, at least three papers have been published in the scholarly literature, which have bearing on the Inquiry. In the first place, Woodbury and Dollery (2004) examined empirically the efficiency of water and wastewater providers in regional NSW. In addition, they made a significant contribution to the Australian literature with the first attempt at constructing indices of water quality. In general, the results obtained by Woodbury and Dollery (2004) indicated considerable scope for improvement in the performance of regional water utilities in NSW. Second, Coelli and Walding (2005) examined the 18 largest Australian water providers consisting mostly of metropolitan water utilities, but also several utilities located in regional Victoria. Their objective was to assist policy makers tackle price-cap regulation questions.

After evaluating the technical efficiency and productivity of these water utilities, Coelli and Walding (2005: 2) anticipated generating 'comprehensive performance information to help regulatory authorities set (so-called) CPI-X price paths that encourage efficient performance'. The results obtained by Coelli and Walding (2005) showed that in terms of Total Factor Productivity growth, the average annual change over the seven-year period from 1995/96 to 2002/03 was a 1.2 per cent decline per annum. Coelli and Walding (2005) attributed this finding primarily to demand management policies implemented over this period. However, Coelli and Walding (2005) added the caveat that much better data was required to conduct satisfactory efficiency analyses. Finally, Byrnes et al. (2010) sought to measure the efficiency consequences of urban water policy programs using Data Envelopment Analysis to estimate the relative technical efficiency of urban water utilities in regional NSW and Victoria. There is considerable variation in industry structure across jurisdictions in Australia and Byrnes et al. (2010) sough to exploit these variations to test for their impacts on efficiency. They found that in general water restrictions reduced relative efficiency across the board and larger Victorian water utilities exhibited a higher degree of managerial efficiency. Two of the aforementioned published empirical studies were extended to deal with the Australian wastewater industry and a third paper by Bryne et al. (2009) also appeared in the scholarly literature. In common with their analysis of the provision of water services, Woodbury and Dollery (2004) investigated the relative efficiency of wastewater providers in regional NSW. The results indicated that considerable potential for performance improvement of the utilities was available. The Coelli and Walding (2005) study of the 18 largest urban water utilities also tested wastewater performance. They established that the average utility could have reduced input consumption by 9.6 per cent without reducing output, but cautioned that data of much more robust quality would be required. Finally, Byrnes et al. (2009) found a significant disparity in relative efficiency scores between wastewater utilities in NSW and Victoria, with the latter more technically efficient when compared to utilities in NSW of a similar size.

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