LOCAL GOVERNMENT
ASSOCIATION
OF QUEENSLAND LTD

Productivity Commission Issue Paper - Australia's Urban Water Sector

LGAQ Submission

November 2010

LGAQ Submission

As the peak body representing Queensland councils, the Local Government Association of Queensland (LGAQ) appreciates the opportunity to respond to the Commission's Issues Paper "Australia's Urban Water Sector" (September 2010).

Given the technical nature of some of the subject matter, the LGAQ has sought to only provide generalised comments. LGAQ, has however, consulted with ***qldwater*** (the Queensland water industry technical support body) during the formation of this submission and consequently, ***qldwater's*** comments have been included in our commentary below.

LGAQ's submission has also been informed by LGAQ's Policy Statement, which defines the policy principles on key subject areas that the Association is required to have regard to when advocating on Local Government's behalf.

Given LGAQ is the corporate entity representing all Queensland Local Governments, the Association seeks to identify issues of state-wide concern to Local Government and to arrive at a consensus view as to Local Government's position on the issues identified. To give the Commission a better understanding of the key issues and formal policy position as they relate to water, Appendix A contains the relevant extract from the LGAQ's 2010 Policy Statement.

Queensland Context

The Local Government water industry is currently undergoing one of the most difficult periods in Queensland's history with aged infrastructure, skill shortages and removal of water subsidies occurring concurrently with extensive legislative reform, amalgamation of councils and water industry restructure in South East Queensland.

More specifically, Local Government needs to respond to a number of significant social, environmental and economic policy drivers including:

- impacts of climate change with expectations of reductions in rainfall and increases in mean temperatures;
- greater competition for water resources through expansion of permanent trade in water with objectives related to more profitable and cost effective use of water;
- changes in supply pricing with continued implementation of full-cost pricing for both the urban and rural sectors as well as inclusion of externalities such as environmental costs;
- the importance of retail pricing mechanisms in driving demand towards more sustainable levels;
- enhanced management of demand for water in urban areas including water sensitive urban design, efficiency of household appliances and increases in use of recycled water and stormwater;
- a need to change community attitudes to water conservation measures including use of recycled water;
- pressures of urban growth particularly in South East Queensland and coastal areas of the State and the implications for increased demand and new infrastructure;
- higher environmental and public health standards in response to community expectations;
- ageing water infrastructure coupled with pressures to improve the safety and minimise the risks from failure of major storage facilities; and
- appropriate capital investment strategies to secure supplies to meet future demands.

These challenges and policy drivers will continue to impact the industry through the next decade and many councils are not well positioned to find solutions individually under current arrangements for managing water services. Moreover, these factors are vastly different given the difference in regional and institutional arrangements within Queensland.

LGAQ and *qldwater* have a tradition of working together and are currently also working in partnership with the Department of Environment and Resource Management (DERM) to raise awareness of the factors influencing State Government policy on water reform.

South East Queensland and the New Water Supply Entities

The severe drought in South East Queensland and the significant expenditure on water supply infrastructure, such as the Tugan Desalination Plant and Water Grid, culminated in institutional reforms in the region during 2007 – 2008 with the Queensland State Government taking over responsibility (from council) of bulk water assets. The State also established a Water Grid Manager to sell bulk water to retailers and specific large industrial customers, as well as establishing three separate distribution / retail entities jointly owned by South East Queensland Local Governments – Allconnex Water, Qld Urban Utilities and UnityWater.

Compensation for these assets has nominally been made by the State Government to Local Government, however strong concerns about the level of compensation have been raised by the Council of Mayors and LGAQ.

Allconnex Water, Qld Urban Utilities and UnityWater adopted their first schedule of water and sewerage rates and charges to apply from 1 July 2010, with some significant price increases occurring to reflect higher costs (and to pass through the established Queensland Government bulk water price path).

Regional Queensland

Unlike other states, water and wastewater services in Queensland have traditionally been provided by Local Government.

In the late 1990's driven by the National Competition Policies of the Federal Government a number of large Local Governments commercialised their water and wastewater services. In addition, Australia's first Local Government Owned Water Corporation (Wide Bay Water Corporation) was created by the then Hervey Bay City Council. Other significant entities include the Gladstone Area Water Board (a Category 1 commercialised Water Authority under the Water Act 2000, responsible to the Minister for Natural Resources, Mines and Energy and servicing the needs of Gladstone Regional Council and regional industries), the Mt Isa Water Board (a Category 1 commercialised Water Authority under the Water Act 2000, responsible to the Minister for Natural Resources, Mines and Energy and servicing the needs of Mt Isa Regional Council and its industries) and SunWater, the state-owned bulk water supply authority.

In recent years both the LGAQ and *qldwater* have attempted to gain a better understanding of the needs and issues facing water service providers outside of South East Queensland.

In late 2009, a Local Government taskforce coordinated jointly by LGAQ and *qldwater* reviewed the issues impacting on the water industry nationally and provided a summary of the key drivers forcing change in Queensland. These included:

- increasing emphasis on security and reliability of supplies;
- adoption of more definitive regulations than in the past;
- emphasis on transparent planning for internal & external risks;
- economic reform, transparent water pricing and water trading;
- increasing customer expectations,
- promotion of benefits of size and scale; and
- review of governance and ownership.

The work of this taskforce coupled with other key drivers and initiatives has led to the establishment of a Memorandum of Agreement between LGAQ, *qldwater* and the State's DERM.

Memorandum of Agreement – Urban Water Services Project

In early 2010, recognising the issues facing water service providers (councils) throughout the State, particularly those outside of South East Queensland, LGAQ, *qldwater* and DERM entered into a formal Memorandum of Agreement (MOA). The MOA acknowledges that the challenges facing the urban water sector in regional Queensland are best addressed through a collaborative approach, and focuses on the following priority project areas:

1. Streamlined and effective regulation

DERM, LGAQ and *qldwater,* in consultation with stakeholders, will explore mechanisms to reduce the regulatory burden on urban water service providers and DERM, while ensuring good water provision outcomes are still delivered. This may involve the development of streamlined arrangements to focus on outcomes. This project will also include the requirements of the Total Water Cycle Management Plan.

2. Risk assessments and identifying priority actions

DERM, LGAQ and *qldwater* will jointly develop a risk assessment framework and work with urban water service providers to undertake risk assessments on source reliability, drinking water quality, wastewater management and infrastructure reliability/capacity, with a focus on urban water service providers outside of South East Queensland. The risk assessment and identification of priority actions will build on the drinking water survey (late 2009) and research into water supply and wastewater management risks.

3. Asset investment and pricing

DERM, LGAQ and *qldwater* in consultation with urban water service providers, will explore options to improve adequate investment in infrastructure and management mechanisms. This will be undertaken within the context of the national urban water pricing policy context; namely the COAG Water Resource Policy 1994, National Water Initiative (NWI) 2004 and the NWI Pricing Principles (2010). Linkages will be identified with the new urban water services pricing model developed by Queensland Treasury Corporation for use by Local Government.

4. Workforce skills

qldwater is coordinating and leading the development of a state-wide water industry Skills Formation Strategy which is overseen by a Steering Committee comprising, among others, representatives of LGAQ, DERM and CEOs of local and state government water utilities. Additionally, DERM is collaborating with *qldwater* to provide technical support for training institutions to reflect the needs of urban water service providers. DERM will investigate the development of minimum mandatory certification requirements for operators.

Further information on the Skills Formation Strategy is provided in Appendix B to this submission.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
Key Questions – page 8	
What objectives should governments have for the urban water sector?	In 2008 LGAQ and *qldwater* convened a series of meetings on the future of the Queensland Local Government water industry outside of South East Queensland. In regional Queensland this group comprises greater than 95% of the urban water sector. A number of papers were produced from this work and circulated around the entire industry for comment. This included a set of ten principles (see below) that were proposed as a foundation for determining the future of the industry. These principles were later endorsed by the LGAQ Executive and subsequently provided to the State Water Regulator (the Department of Environment and Resource Management) for discussion. LGAQ and *qldwater* believe these principles can provide guidance to both State and Federal Governments in determining objectives for the urban water sector. 1. Efficient and effective service delivery and resource use. 2. Equitable and transparent water sharing across and between regions. 3. Needs of individual communities to remain a vital driver of management, policy and planning. 4. Management of water businesses needs to deliver returns that allow for appropriate asset renewal with a dividend on assets returned to the community through Local Government (with no cross-subsidisation of other council services). 5. No community to be substantially disadvantaged (reasonable price for basic access). 6. Water planning framework to be consistent across the state. 7. Water planning and management needs to be directly linked with statutory and land use planning activities of Local Government. 8. Long-term sustainable asset management (taking into account, for example, Water Sensitive Urban Design, System Supply Losses, Integrated Water Cycle Management and maximising the benefits of vertical integration). 9. Local Government to retain ownership. 10. Creation of autonomously governed and managed sustainable water businesses to ensure among other things: o Accountability; o Management and technical capacity to appropriately respond to changing economic and technical regulatory frameworks (including reporting obligations); o Capacity to provide for ongoing training, skills enhancement and development needs of staff; and o Skills/experience based, independently appointed board/governance with minority representation by local councillors.
What are the impediments to achieving those objectives?	Whilst there are many governance, structural and policy issues that impede the achievement of these objectives, a very real operational impediment relates to the overlapping and competitive nature of Federal and State agency portfolios which contain water service / regulation responsibilities. Two examples regarding data reporting demonstrate this issue and are summarised below.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
	Nationally, significant funds have been committed to collecting water reporting information by the Bureau of Meteorology. Last year the Australian Bureau of Statistics approached the Queensland water industry to collect the same information. This data is being collected twice again this year because the two agencies were unable to coordinate their databases. This problem can apparently not be solved until 2012. If this were an isolated or one-off issue then it would be trivial. Duplication in reporting water data is actually common at a number of levels as current reporting mechanisms have evolved over time, driven by internal needs of numerous agencies resulting in a system that is ad hoc, duplicative, costly, and inconsistent. As an example, a review by the (then) Queensland Department of Local Government and Planning in 2006 listed over 900 water statistics being collected by several agencies at both State and Commonwealth levels. In response, the water industry developed the State-wide Water Information Management (SWIM) system and rationalised these requests to around 220 indicators in cooperation with the Department of Environment and Resource Management (DERM) and Department of Infrastructure and Planning (DIP). The SWIM system also allows water service providers to report data through a central web-based hub and relays information on to State and Commonwealth agencies in their preferred formats. The presence of this system created by the Queensland industry to solve a State and National problem with reporting efficiency has saved significant time for water utilities in the State. It was also used in reporting ABS and BoM data and information for National Performance Reporting. The inefficiencies of water data reporting are merely one example of inefficiencies generated by multiple agencies seeking to address the complicated issues of the sector. The irony of the present national review of water industry efficiency being undertaken simultaneously with two other national reviews of the same industry is likely already apparent to the Commission. Within Queensland there are several State agencies responsible for regulating or otherwise governing various aspects of the water business. Similar jurisdictional complexity is present at the national level resulting in significant probability of duplication, communication break-down and dysfunctional regulation. Another important barrier is a lack of skills capability. This is a national problem that is manifested strongly in Queensland. The water industry has traditionally not placed enough emphasis on attraction, retention and upskilling. With a workforce with a high average age, retirement of baby boomers will have a large impact on the industry over the next five years. The industry is poorly prepared for this eventuality in general. There has been some good initial work at a national scale by Government Skills Australia (with National Water Commission funding) and the Australian Water Association and Water Industry Operators Association and in Queensland, *qldwater* is facilitating training brokering activities and a Skills Formation Strategy (refer to Appendix B). Unfortunately, these activities may be overwhelmed by the dispersed higher education system and uncoordinated vocational training providers across the country. The unnecessarily complicated and constantly changing array of Commonwealth and State training incentives do little to solve and much to exacerbate this problem. The water industry is seen as a "thin market" by both Higher Education and vocational training organisations and the resultant lack of bargaining power along with the dispersed nature of the industry has resulted in a training and education system that largely ignores the specific needs of the

Productivity Commission Questions	LGAQ and *qldwater* Commentary
	industry. Coordination and removal of perverse incentives would be an important step to achieving efficiency for the water sector. Another important barrier to achieving an efficient water sector is the emphasis placed on this essential service. Gaining community or political interest in dealing with issues faced by the sector is traditionally difficult as the service is 'assumed' by most people. This is reflected in the many public debates about increased water pricing across the country. The public are not aware that traditional pricing methods have often not been cost-reflective, with communities often getting angry when asked to pay more for a service that they assume has been provided sustainably as a public right for many years. This has most recently been the case in Townsville City Council as well as South East Queensland with the establishment of three new water retailers. Additionally, there has been much conjecture surrounding the appropriateness of these price increases, with the State Government openly criticising councils in the media for the increases. The fact that the sector and its regulators have allowed this situation to arise over decades reflects the absence of strategic planning for water, which appears to be apparent across the country. The importance of the water sector and it strategic needs should be recognised regardless of the political urgency of dealing with water. The Productivity Commission Issues Paper notes that the National Water Initiative has had a focus on water since the early 1990s, yet there has been little change in urban water operations except when driven by individual State Governments. Even so, recent changes can largely be attributed to the impact of drought in major metro areas around the country. Good strategic policy should be driven by the importance of objectives rather than calamity, and this has been somewhat lacking in the past partly because water services are taken for granted by the community. The objectives for an efficient water industry must be established so that they are recognised and continue to be recognised in the absence of political urgency, public interest and in light of inevitable competing portfolios of State and Federal Government agencies.
Is there a strong case for reforming Australia's urban water sector? What is it?	It is difficult to comment on the need for reform of the urban water industry given the vast diversity of the sector both nationally and within Queensland. Improvements are required in many areas but it is not clear that widespread reform is the best way to achieve the necessary change. A common reform argument is for institutional change. The urban water industry in Queensland is managed primarily by Local Governments and Local Government-owned entities. The Local-Government service provider model is no longer common nationally (refer to Appendix B). In Tasmania a recent institutional change has reduced the 32 Local Government service providers to three regional utilities with a central common service provider subsidiary. Even in NSW and Queensland, where Local Governments comprise the majority of water utilities, institutional reform has been mooted. In NSW a review of institutional arrangements has been completed by the State but has yet to be actioned. As outlined above, in South East Queensland, drastic and widespread institutional reform saw all Local Governments hand over all bulk assets to three state-owned bodies, while the remaining distribution services and wastewater treatment are managed through a single, Local Government-owned entity. Outside of South East Queensland, Local Government water utilities in regional Queensland question the efficiency of wholesale institutional change to meet water sector objectives. Primarily this is because Local Government is felt to be the most democratic and socially accountable

Productivity Commission Questions	LGAQ and *qldwater* Commentary
	method for dealing with an essential service such as water in a state as diverse as Queensland. Equally as important is that many of the benefits argued for institutional change are not possible in the widely separated and small communities of the state. For example, economies of scale through amalgamation of water businesses are often cited as a reason to change Local Government management of water. The regional water sector recognises the benefits of economies of scale but argues that they are best achieved through cooperation rather than wholesale institutional change. Principally this is because economies are not easily achieved where a large number of small communities are spread at great distance. Savings possible in metro areas or adjacent communities are simply not available to regional areas where the towns are separated by a drive of one to three hours. Similarly, cross subsidisation of small communities by the larger ones is now unlikely in Queensland. It is true that some Queensland communities are so small as to make a sustainable water business difficult or impossible to achieve under today's industry standards because of a limited rate base. In some States, inequities in the inability of some providers to financially support the water industry is overcome by combining large and small providers together so that internal cross-subsidisation can occur. Indeed this occurred to some extent in the past (e.g. the larger members of *qldwater* agree to pay a higher subscription in the knowledge that a high proportion of industry support activities benefit small regional councils) but is now unlikely with the commercialisation of larger water service providers and corporatisation of the South East Queensland metro area. The altruistic and public good cooperation present in the traditional water industry is less likely in a more business-like and financially rational sector. Combining small and struggling water businesses in the name of economies of scale can result in an amalgamated struggling water business that has the additional burden of cultural issues and poor on-ground links with its dispersed communities. Some benefits of scope and scale are acknowledged by the Queensland water sector. In particular, group access to specialised senior (i.e. strategic) staff is seen as a strong benefit for regional collaboration. This is difficult under current arrangements and might be more achievable if stronger cooperative arrangements were put in place. It should be noted though that for the majority of skills shortages and lack of capacity at the level of operational staff (i.e. those responsible for day-to-day operations and maintenance), amalgamating water businesses will have little impact and emphasis should instead be towards whole of industry skilling, attraction and retention strategies.
How large are the opportunities for efficiency gains?	Please refer to above commentary.
What are the main reasons that these potential gains are not being realised at present?	Please refer to above commentary.
Which options for reform offer the largest benefits in metropolitan and regional urban	Reform in metro areas has been widespread in the past two decades and most recently in South East Queensland. Further reform may increase the uncertainty of constant change without adequate time to review the processes that have been put in place. This is particularly true in States

Productivity Commission Questions	LGAQ and *qldwater* Commentary
areas?	such as Queensland and Tasmania where reform of metro areas is relatively recent. In Victoria the metro area was reformed some years ago and appears to meet all reviews of system and structure. In most of the remaining states the metro areas are managed by single state-wide entities and reform of the metro area would impact the entire state. Options for reform in regional Queensland that would most rapidly lead towards a more efficient water sector are: • Recognising the importance and central role of the water sector in a sustainable manner that is not driven only by political whim or natural disaster. • Rationalising regulatory arrangements and building a firm and effective regulator. • Formalising regional cooperation and collaboration. • Improving access and scope of water skilling incentives. • Negotiating common workforce planning. • Rationalising governance by numerous State and Federal Government agencies. • Recognising the success, achievements and inherent strengths of an industry that has been serving the needs of its diverse communities for decades. • Subsidising small and remote communities in a more effective manner to avoid past tendencies for creating a 'hand-out mentality' in relation to infrastructure funding.
Chapter 4 – Efficiency and Other Objectives – page 15	
What are the objectives that should guide reform of Australia's urban water sector? Should the objectives be the same across all urban water systems?	The Issues Paper states that a "generalised characterisation" of an efficient urban water sector is "one in which consumers are reliably able to use the water and wastewater services that they are willing to pay for (allocative efficiency and dynamic efficiency), with those services supplied at the lowest possible cost (productive efficiency) and with no unnecessary impediments to innovation (dynamic efficiency)." These objectives are acceptable only with the additional recognition that water is an essential service and a minimum volume must be made available for personal use and also for environmental flows. These volumes need to be assessed on a regional or even a local basis to allow for climatic, social and economic diversity across each State and Territory, or further still at a regional level within each State or Territory. The water sector is also an important employer in small and remote communities and has other community service obligations. The Issues Paper places an emphasis on population growth, but some regional communities are experiencing stable population numbers or decreasing population trends.
How should water supply and security objectives be framed? For example, should they be in terms of the frequency of water restrictions? Is the economically efficient level of water security desirable or should	Demand management is a contentious issue in regional Queensland and while there is broad support for increased demand management in urban settings, this needs to be undertaken sensitively as the success in South East Queensland will not translate directly to the regions. While there is widespread agreement that the culture of water use should be altered to increase respect for water as a limited resource, reduce watering at inappropriate times and seek efficient irrigation practices, the difficulties with immediately regulating for such change may outweigh the

Productivity Commission Questions	LGAQ and *qldwater* Commentary
some other level be pursued?	immediate benefits. It is insufficient to highlight potential cost savings that can be associated with demand management. Costs are important but clearly not a driving force in much of the Queensland water industry at present. Stating that "the public demand more efficient water use" is misleading from a broad, state-wide perspective. While it is clear that public opinion nationally is tending towards recognition of water as a limited resource, this shift is exaggerated by those communities (particularly the large metro areas) that have suffered unprecedented drought. Even in South East Queensland, the cultural shift towards a community that embraces water conservation occurred only in the last two to three years. To claim that all communities in Queensland view water resources in a similar way underestimates the cultural differences across the State. In the wet tropics, in areas accessing the Great Artesian Basin and in many indigenous communities, water is highly valued, but in socially different ways from the major metro areas and these cultural differences need to be recognised through demand management programs. The volume of water used is a deeply rooted and a complex issue in regional Queensland and is further complicated in those areas where water is used profligately by agriculture and mining interests.
What is an acceptable minimum level of water services for households? Is this level best achieved through water pricing arrangements, or through the social security and taxation systems?	Minimum levels of water services vary greatly from region to region throughout Queensland and as such LGAQ and *qldwater* would advocate that no general blanket minimum service level should be considered. There is an equally important need to ensure that no community is substantially disadvantaged in terms of basic access to, and price of a reasonable supply of potable water, as a community service obligation.
Is there a need for specific environmental objectives for the sector? If so, what should they be?	LGAQ and *qldwater* are of the view that current levels of environmental requirements met by the water service provision industry are generally adequate. However, it is noted that an emphasis has been placed on discharges to waterways with little consideration of greenhouse gases.
Are some objectives more important than others? How should tradeoffs between objectives be made?	It is difficult to say what objectives are most important as this will vary from region to region. That being said, obviously objectives relating to water security, safety and affordability would, to the best of LGAQ and *qldwater's* opinion, be common objectives across communities, irrespective of whether they are urban or regional. Tradeoffs should be made in genuine consultation with the parties affected and recognising the input of local industry experts.
Are there any current government water policies that impede the achievement of the objectives that should be pursued for the urban water sector? If so, what impediments are there and how significant are they?	Please refer to the commentary above relating to Government agency duplication.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
What lessons of relevance to future reform of the urban water sector can be taken from reform in: *• other utility sectors* *• the rural water sector* *• the natural resource management sector* *• the urban water sector in other countries?*	In late 2008, an independent inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan New South Wales outlined various recommendations into reforming water supply services in regional New South Wales. Acknowledging the limitations of comparing this report with another jurisdiction, much of the findings of the Inquiry can be transferred into the issues facing regional Queensland. One particular option raised in the report is the potential for alliances built from either regional or catchment perspectives. Although both LGAQ and *qldwater* would raise concerns about a complete re-structure to a regional corporatised model, both organisations are supportive of regional co-operative models, where existing providers engage in joint resource sharing practices and industry driven efficiency gains. Similar regional co-operative models currently exist within the realms of Local Government across Queensland and provide an obvious platform to progress water issues.
Are there urban water reforms that have occurred in particular jurisdictions that could usefully serve as a model for other jurisdictions?	Please refer to above commentary.
Do the particular characteristics of the urban water sector constrain the scope for reform? If so, which of these characteristics is of most significance in this regard and why?	The most significant characteristic that would constrain any institutional reform from a state-wide perspective is the multitude needs of different water service providers across highly variable regions. LGAQ and *qldwater* would caution that a one size fits all approach would be difficult to implement and would ultimately lead to dysfunctional systems.
Is there greater or lesser scope for reform in regional urban compared to metropolitan urban areas?	Please refer to above commentary.
Chapter 5 - Supply of Water and Wastewater Services – page 19	
Is there scope to increase the efficiency of supply augmentation planning and decision making? If so, how significant are these opportunities? What is preventing them from being realised at present?	Due to the resource sector, many communities across Queensland are experiencing rapid population growth. Management of this growth requires significant investment in public infrastructure to meet the needs of new residents and evidently, planning for demand management is an essential exercise. The scope to increase the efficiency of supply augmentation should be broadly considered within the objectives of any demand management plan. Under the Local Government Act 2009, councils are now required to develop long term community plans which will guide the development of communities across the State. These plans are supported by an integrated financial and asset planning process and it is hoped that these processes will consider what investments are required to ensure water provision services into the future.
Should supply augmentation planning be	In Queensland there is general support for a regulatory framework for water security programs that are regionally specific. However, water

Productivity Commission Questions	LGAQ and *qldwater* Commentary
guided by a water security objective? Does this occur at present? If so, who sets the objective and how is it set?	security objectives and any associated regulatory frameworks should be determined in conjunction with state authorities and local experts to develop more robust water security measures.
Who makes supply augmentation decisions at present? Is there clear process, accountability and transparency for decision making?	Supply augmentation is determined jointly by Local Government and the State. Accountability is achieved through the usual democratic and consultative processes of those bodies.
How are environmental considerations taken into account in decision making? Are there improvements that could be made in this regard?	Environmental considerations have become significant factors in solutions selected both for water supply and wastewater disposal. On the supply side, environmental considerations determine bulk water allocations from streams and underground supplies and the location of intakes for desalination plants. On the disposal/recycling side, environmental requirements determine the treatment standards to be achieved which in turn determine the type of and scale of treatment required. Considerations of environmental constraints effectively prices in environmental externalities in water and wastewater systems.
Are all supply augmentation options considered, or are there implicit or explicit 'policy bans' on certain options?	In 2007 the former Toowoomba City Council initiated a local plebiscite on whether to augment local drinking water supplies with recycled drinking water. This plebiscite was well documented and was ultimately defeated. Although LGAQ does not have any direct policy position on this issue, community perceptions about drinking water quality standards (i.e. what is acceptable and not acceptable) can be quite strong and hence LGAQ and *qldwater* would argue that the Commission must take this into account in their recommendations regarding this issue.
Under what circumstances should water transfers from irrigators to urban use (and vice versa) occur? Should individual irrigator's willingness to sell and urban utilities' willingness to pay govern water transfers or should broader social and resource issues also be considered? What are the costs and benefits associated with your preferred approach?	This issue had been addressed in a number of regions where bulk water supply is augmented via a commercial third party. The issue surrounding water service provision in these areas relates more to the market value of the water as a product and the inability for council to afford this market value. Obvious policy provisions in most jurisdictions across the nation that gives preference to urban water provision over irrigation or commercial usage to ensure water security should remain. However, LGAQ and *qldwater* share concerns that where provision exists to purchase bulk water at market value, councils and water service providers cannot adequately compete with commercial entities for augmentation of drinking water supplies.
Should an options approach to supply augmentation be taken? Is this done at present?	Yes, LGAQ and *qldwater* believe all viable options should be duly investigated.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
Are supply augmentation projects generally implemented at minimum cost? If so, what are the features that deliver this outcome? If not, why is this the case?	The Queensland State Purchasing policy requires local governments to achieve the best value outcomes. This generally is achieved by a competitive tendering process for the construction of new facilities. In the recent past in South East Queensland, with the severe drought situation, other procurement methods were employed by the State Government including Alliance contracts. It is debateable whether best value was achieved through these arrangements with the prime justification for their use being the need for expediency in the face of the drought emergency.
Are the operating costs of desalination and water recycling plants appropriately taken into account in decisions on when to operate them?	LGAQ and *qldwater* have no comments on this matter.
Who should bear the risks for recovery of capital costs? Should these costs be recovered through the tax system, fixed charges on water users or volumetric charges on water users?	The Henry Tax Review noted that public goods should generally be funded from broad-based taxes. However, user charging can be an efficient means of financing some government-provided goods and services and of rationing individual access to community resources. For user charging to be efficient, the user needs to be charged the cost that consuming the good or service imposes on others. This cost will often be what a well-functioning market would charge, but might need to be higher or lower depending on whether there are wider social costs or benefits. This finding in the report highlights the difficulty for water service providers recovering the cost of capital expenditure. While broadly understanding that there are mechanisms in place for cost recovery, there are no steadfast ways for service providers to equitably distribute these recovery costs across the community at large. Recently COAG endorsed a set of urban water pricing principles, placing an increased requirement for service providers to move towards full cost recovery within their price paths. As such, LGAQ and *qldwater* are advocating a process of creating a set voluntary pricing principles that allow pricing paths to be set to promote full cost recovery in a sustainable and equitable manner over time.
Is the management of water catchments appropriately influenced by the value of the water that they yield? If not, what is preventing this from occurring?	No. LGAQ and *qldwater* would argue that this is difficult to achieve because of complicated and inequitable valuation of water both from region to region and among different uses (e.g. urban, irrigation, mining) and also the difficulty with valuing ecosystem goods and services.
Is there scope to increase the efficiency of water treatment, transport and distribution? If so, how significant are these opportunities? What is preventing them from being realised?	This question could well be answered by researchers investigating the efficiencies of centralised and decentralised systems. However, new approaches cannot be implemented unless there is greater certainty within the industry and an increased ability (trust) to implement expensive and experimental innovations.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
Are water quality standards being consistently met? If not, why? Are the regulatory standards appropriate?	In 2009 a DERM report noted that the incidence of potential harmful microbiological organisms was around a 0.57% rate in state-wide sampling. However, the results also showed a correlation between the rate of incidence and the size of the scheme. For example, for those classed as a small service provider (under 25 000 connections) the incidence per sample rose to 3.31%. Further risk based studies by the Department indicated that 7% to 15% of water service providers have assets in poor to very poor condition while 12% to 15% have poor to very poor operational maintenance practices. Alarmingly, 9% to 18% had high to very high drinking water quality risks. This demonstrates that while for the most part conventional standards are being met, there is fundamental underlying issue relating to water quality standards which are indirectly linked to asset management and capacity for the service provider. As outlined above, the Queensland Government, LGAQ and *qldwater* are currently working together under a joint MOA to address the issue of drinking water quality. This program combines a review of regulatory requirements, capacity building and education. This is underpinned by a high level risk scan across all water service providers. Fundamental to the achievement of successful outcomes for this program is the urgent need for a plan which addresses the availability of appropriate laboratory facilities across the state and water monitoring capacity within councils. Consequently, LGAQ and *qldwater* strongly encourage the Commission to consider how best to address these concerns at a state-wide and nation-wide level as existing capacity is insufficient to meet present demand let alone growth in monitoring likely under existing legislative requirements.
Is there scope to increase the efficiency of wastewater services? If so, how significant are these opportunities? What is preventing them from being realised?	Waste water services have been significantly upgraded in South East Queensland. In regional Queensland, the most significant barrier is the cost of new treatment processes across numerous and widely spread communities. This includes the initial capital cost as well as ongoing operations and maintenance and the requisite skills that attend it.
Are there particular challenges and opportunities in providing wastewater services in regional urban areas?	A key challenge is the operations and maintenance of systems in remote areas. In some communities infrastructure has been replaced with modern plants that are not fit-for-purpose. A common problem is in replacing or repairing parts that are not readily available in remote areas (or sometimes in Australia). Many treatment plants in regional Queensland were installed soon after the second world war and are simple systems that have served their communities well. Many are in need of replacement, but the adoption of new technology in small and remote communities must be approached carefully with understanding of local capacity to operate and maintain the systems into the future.
Are wastewater systems performing well from an environmental perspective?	LGAQ and *qldwater* have no data which would enable us to provide comments on this matter.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
Are there efficiency gains available from the wider adoption of integrated water management? If so, what is preventing these from being realised?	Integrated water management is likely to provide significant benefits in the efficient use of water as a natural resource but is financially expensive. Despite its financial costs many of the benefits of IWCM are to the environment and are difficult or impossible to value.
What examples are there of good practice in integrated water management?	LGAQ and *qldwater* are not in a position to identify examples at this point, but could provide further information at a later stage if requested by the Commission. As a general statement, there are many good examples in Queensland but they are not consistently spread across the State.
Chapter 6 – Consumption and Pricing – page 22	
What impact might growth in population, and trends in technology, consumer behaviour and climate have on the demand for water and wastewater services in the future?	Given much literature exists around these issues, LGAQ and *qldwater* only seek to highlight the pressures a growing population will place on a limited resource and the ageing water supply infrastructure that currently exists in many Queensland growth centres. In addition to noting our comments above on demand management, from a climate perspective, a recent Queensland Government publication indicates that "projected increases in temperature and evaporation, reductions in rainfall and a higher variability in weather conditions and extreme events are expected to significantly impact water availability and security. Challenges for managing water resources in Queensland are compounded by the fact that Queensland's rivers are characterised by alternating severe droughts and major floods and that Australian stream flow is more variable than anywhere else in the world".[1]
How might demand for different qualities of water (for example, potable and non-potable water) evolve?	LGAQ and *qldwater* have no comments on this matter.
How do current water and wastewater pricing arrangements perform against the efficiency, equity/social and other relevant objectives? Is there scope to improve the efficiency of pricing? How would this best be achieved?	Local Government accepts that significant Local Government water retailers should be subject to price oversight by an independent body. However, retail water pricing must remain the responsibility of each water retailer, recognising the varying circumstances that exist. Within Queensland the industry recognises the need to move towards consistent economic approaches and there are examples of "Alliances" of councils who have sought to develop best practice pricing models to share more broadly across the industry. LGAQ and *qldwater* fully recognise the need for appropriate pricing and have been proactive in advocating that water service providers, in this case councils, use appropriate cost indicators, price paths and ultimately, increases in rates.

[1] Queensland Climate Change Center of Excellence (2010) "Climate Change: What the Science is Telling Us?"

Productivity Commission Questions	LGAQ and *qldwater* Commentary
Are consumers willing to pay more for water in order to forgo water restrictions? How much would they be willing to pay?	LGAQ and *qldwater* have no data which would enable us to provide comments on this matter.
Should more flexible (scarcity-based) pricing be introduced to assist in managing demand in the face of the variability of rainfall-dependent supply?	LGAQ and *qldwater* have no policy position on this issue and are therefore unable to comment.
What are the environmental externalities of water and wastewater service consumption? Should these externalities be accounted for in water and wastewater pricing? If so, how would this be best achieved?	Key externalities include environmental flows, impacts from discharge of treated wastewater and the carbon footprint of the industry. It is difficult or impossible to account for these externalities because valuation methodologies are lacking or inconsistent.
To what extent are efficiency gains in the supply of water and wastewater services dependent on pricing reform (that is, on obtaining better price signals to guide supply augmentation investment)?	LGAQ and *qldwater* would argue they are dependent on pricing reform to a large extent. Equally important though, is a climate of trust to encourage innovation, rather than the current industry uncertainty (which are admittedly exacerbated by regular reviews such as the current one raising the need for widespread reform) and removal of disincentives.
Can improvements be made in the area of metering and billing? What changes could be made? What are the costs and benefits of these changes?	There is some difficulty in this area. There is no doubt that in order to set effective pricing mechanisms you must first be able to provide adequate data on actual water consumption. However, in instances where metering does not currently occur, the cost and ongoing maintenance of introducing metering may be problematic especially in areas where inappropriate economies of scale exist. For example, installation of meters touches on local policy issues of water pricing, infrastructure charges, maintenance and meter reading procedures, penalty policies and water use (including costs of water heating in some communities where hot artesian water is used for hot water services). These factors combined mean that installation of meters is not a simple cost-benefit analysis for some small communities. LGAQ and *qldwater* suggest that a joint approach to reviewing current metering gaps and a cost benefit analysis of a program to fill those gaps should be undertaken as soon as possible to inform any demand management framework. Importantly, LGAQ and *qldwater* believe that successful implementation of compulsory metering will require funding support from the State Government where councils and other water service providers lack the capacity to undertake this task.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
How responsive to changes in price is the demand for water for residential (indoor and outdoor use) and commercial/industrial use?	LGAQ and *qldwater* have no data which would enable us to provide comments on this matter.
Are elasticities different in the short run compared to the long run (due to consumers having more time to become aware of price changes and respond to them)?	LGAQ and *qldwater* have no data which would enable us to provide comments on this matter.
What is the evidence on the price elasticity of demand for water?	LGAQ and *qldwater* have no data which would enable us to provide comments on this matter.
What impact has the imposition of restrictions and other non-price demand management measures had on the price elasticity of demand for water?	LGAQ and *qldwater* have no data which would enable us to provide comments on this matter.
Is equitable access to water and wastewater services a significant issue in Australia? What groups of consumers are particularly vulnerable and why?	Given issues relating to economies of scale in regional areas of Queensland and the ever increasing regulatory burden (particularly in wastewater) there are issues relating to equitable access for water consumers. Local Government recognises that water is a resource that should be shared equitably across each region through institutional arrangements that best facilitate efficient service delivery and resource use. However there are boundaries to this equitable distribution, particularly in the area of water quality and customer service levels. Understanding that customer service levels are historically different from regional to urbanised area's (for example acceptable aesthetic values around water quality, such as taste and colour, vary greatly from region to region) any recommendations made by the Commission should take into account this varying form of regional diversification. Acknowledging the current view of industry arrangements, both LGAQ and *qldwater* advocate that the State Government must ensure that no community is substantially disadvantaged in terms of basic access to, and price of a reasonable supply of potable water, as a community service obligation
If equity/social objectives are to be pursued, how should they be paid for and what are	Clearly rate-based payment must be part of the mix along with appropriate infrastructure charges in developing areas. However, given the small and unsustainable size of some communities (with respect to water services), cross subsidisation is required in some form, and thus LGAQ and

Productivity Commission Questions	LGAQ and *qldwater* Commentary
the costs to other water consumers and taxpayers?	*qldwater* believe that subsidies paid for via taxation may ultimately be necessary if some level of basic equity is to be maintained in levels of service across all communities.
Are water restrictions and other non-price demand management measures, inclining block tariffs and postage stamp pricing equitable?	In setting retail prices, Local Government recognises the need for pricing regimes which encourage efficient use of water resources. This will generally be achieved by use of two-part tariffs including, where appropriate, inclining block tariffs. Where separate institutional arrangements exist for bulk water supply within a region, a common "postage stamp" approach to pricing is generally preferred by Local Government rather than one based on differential nodal pricing.
Are the existing measures to provide universal and equitable access effective and efficient? Is there scope for improvement? What are the alternative measures available to policy makers?	LGAQ and *qldwater* have no data which would enable us to provide comments on this matter.
What influence (positive or negative) might wider reform of price and/or non-price demand management measures have on equity?	LGAQ and *qldwater* have no data which would enable us to provide comments on this matter.
Have the non-price demand management measures implemented by policy makers been effective?	Anecdotal evidence provided to LGAQ and *qldwater* by many councils who have implemented education and awareness programs suggests that the end user demand management measures have to date been effective.
What kinds of costs have these measures imposed on consumers? What is the evidence on how large these costs are?	LGAQ and *qldwater* have no data which would enable us to provide comments on this matter.
Compared to price-based approaches, what are the advantages and disadvantages of non-price approaches?	The advantages of price based approaches in a free market include: • Attraction of new innovative supply sources • Higher utilisation of fixed capacity infrastructure including treatment, distribution and disposal • Encouragement to provide more storage capacity • Allows people who place a higher value on water to obtain more The disadvantages of price based approaches in a free market include:

Productivity Commission Questions	LGAQ and *qldwater* Commentary
	• In the absence of any additional supply, water security may threatened • Consumers with the greater ability to pay will gain preference The disadvantages could be addressed by considering water supply as 2 components: 1. Component 1 is the minimum supply essential for human health and well being and the minimum requirements of industry. This component should be used to determine water security requirements and should be rationed by non-price approaches. 2. Component 2 is based on demand above the minimum requirements which would be sold on a user pays approach drawing upon identified supplies over and above Component 1 and or new supply sources. By way of illustration of new supply sources which could be organised at relatively short notice include shipping in water by super tankers from water rich areas and utilising the existing treatment or distribution facilities or both
Of the various non-price and pricing approaches to managing demand, which would consumers prefer?	Wide spread community dissatisfaction with any general increase in the cost of water has been reported throughout the media in Queensland, especially in recent months. However at the core of most of the issues surrounding demand management is the need for proper re-investment into adequate infrastructure. Given that the State Government has removed the subsidy scheme across Queensland, any re-investment in adequate levels of demand management will result in the need for the supplier to readjust pricing mechanisms to allow for capital reinvestment. As such there is a perceivable need for pricing mechanisms to be interlinked with demand management activities.
How might the design and implementation of non-price demand management measures be improved if policy makers elect to use them in the future?	The current approach is to use a "one size" fits all approach. For example, variable restrictions could be imposed by time of day, location or user. Non price demand restrictions should be utilised for the minimum essential requirements with price measures utilised for any spare supply capacity above the minimum.
What are the costs and benefits of information campaigns, voluntary targets and water efficiency programs? How do they compare with more prescriptive water restrictions? How effective would these measures be in the absence of water restrictions?	In many cases such campaigns have been successful in the absence of restrictions. Many regional communities in Queensland (rightly or wrongly) pride themselves on their efficient use of water. Restrictions are notoriously difficult to enforce and often rely on moral suasion among the community rather than penalties. There is a valid argument that restrictions are merely a form of information campaigns that focus on emphasising the importance of community compliance by demonstrating the regulators commitment to the program.
Chapter 7 – Scope for Competition and Contestability - page 28	
Are there other examples of competition-based reform in the urban water sector?	LGAQ does not have a formal policy position on this matter and is therefore unable to comment.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
What lessons can be learned about the costs, benefits and scope for introducing competition-based reforms from developments in the Australian urban water sector to date?	LGAQ does not have a formal policy position on this matter and is therefore unable to comment.
To what extent is there scope for competition and/or contestability in the different elements of the urban water supply chain?	LGAQ does not have a formal policy position on this matter and is therefore unable to comment.
What are the main impediments to competitive pressure developing (that is, why might it be difficult for new firms to enter the urban water market and provide goods and services)? *• What is the nature of these impediments (that is, are they technical, regulatory, policy-related, or of some other nature)?* *• Have these impediments lessened or increased over time?*	LGAQ does not have a formal policy position on this matter and is therefore unable to comment.
What benefits, costs and risks are associated with competition and contestability in the urban water sector? *• Would the introduction of competition (for example, in bulk water supply) affect the economic viability of any existing water sector assets?* *• How would security of supply be managed under more competitive market arrangements? Is there a need for 'provider*	LGAQ does not have a formal policy position on this matter and is therefore unable to comment.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
of last resort' provisions in the event of a water or wastewater service provider failing?	
Are the prospects for developing competition in the metropolitan urban water sector different from the regional urban water sector? If so, how?	LGAQ does not have a formal policy position on this matter and is therefore unable to comment.
Are there any impediments to competition that are specific to either the metropolitan or regional urban water sectors?	LGAQ does not have a formal policy position on this matter and is therefore unable to comment.
Chapter 8 – Tools in Achieving Reform – page 32	
Is there a strong case for urban water reform to be pursued?	From a Queensland perspective, LGAQ and *qldwater* believe there is a case for reform in some instances, as urban water services providers (Local Governments) are facing serious challenges in their provision of safe, reliable and sustainable drinking water supplies and waste water treatment for their urban communities. Population change, changing climatic conditions, degraded and inadequate water supply assets, competing funding priorities, increasing community expectations, drinking water quality standards and insufficient skilled personnel are just some of the challenges that elected officials and officers from Local Government and State Government and industry representatives face in sustaining the operations, management and regulation of urban water supplies. As stated at the start of this submission, in Queensland, it is recognised that these challenges are best addressed through a collective effort between Local Government, State Government and Industry.
Can you provide any quantitative or qualitative evidence or analysis of the efficiency gains from reform that might be achieved in the Australian urban water sector?	No, neither LGAQ nor *qldwater* possess any quantitative or qualitative evidence or analysis with respect to expected efficiency gains from reform of the urban water sector.
Are the current governance arrangements for the urban water sector efficient?	Within Queensland, there are a number of State Government Departments (DERM, DIP, Queensland Health, Department of Education and Training) along with the Queensland Water Commission which interacts with water service providers on a number of water service provision

Productivity Commission Questions	LGAQ and *qldwater* Commentary
• *What are the strengths of these arrangements?* • *What are the weaknesses of these arrangements, and what are the consequences of these weaknesses?*	objectives. At a national level, the tiers of bureaucracy are further complicated, with two Governmental Departments (Department of Sustainability, Environment, Water, Population and Communities and the Department of Climate Change and Energy Efficiency) acting as the primary national policy divers, with the National Water Initiative and the National Water Commission driving significant policy reform and additional agencies providing infrastructure and skills policy advocacy (for example Infrastructure Australia and the Department of Education, Employment and Workplace Relations). This demonstrates the complex manner in which water policy reform is driven across Australia and as such, both the LGAQ and *qldwater* believe that governance arrangements could be better aligned at both national and state level.
Is there a case to change the governance arrangements that apply in the Australian urban water sector?	On the basis of our comments above, LGAQ and *qldwater* would suggest that there is a case to be made for the governance arrangements to, at a minimum, be reviewed.
Are the current institutional arrangements in the urban water sector efficient? If not, what institutional reforms are required? • *What institutions or combinations of institutions are most likely to support an efficient urban water sector?* • *What governance arrangements should these institutions have?* • *How should these arrangements be imposed, monitored and enforced?* • *How should these institutions interact/coordinate?*	Recent institutional reform across the nation, including the reform in South East Queensland, has provided momentum to move away from existing water services arrangements being provided by the Local Government structure. Currently regional Queensland and New South Wales are the only jurisdictions that maintain some form of Local Government control over water services. Many of the drivers associated with the move towards institutional reform for the rest of the nation are also prevalent here in Queensland. However, the Queensland Government has repeatedly stated in public forums that there is no appetite towards the same institutional reform as found in the rest of Australia. LGAQ and *qldwater* strongly advocate that Local Government should remain in control of water service provision across regional Queensland. However understanding that 'business as usual' may not be sufficient to ensure adequate ongoing service provision, particularly in smaller communities where capacity to deliver appropriate modern services is an issue. In instances where institutional reform is required, Local Government believes that any change in current water institutional arrangements should seek to build on existing roles, responsibilities and relationships reflecting the existing partnership approach between the State and Local Governments and amongst Local Governments.
Should the same institutional arrangements apply in metropolitan and regional urban areas? Are special arrangements required for small settlements, including Indigenous communities?	LGAQ and *qldwater* would argue that the same broad institutional outcomes should be consistent across all communities. However, based on our previous comments about the weaknesses of a "one size fits all" approach, both LGAQ and *qldwater* believe that the "implementation" of these outcomes will need to differ across areas based on issues such as community expectations / culture, capability and capacity etc.
What would be the benefits of institutional	This question could lead to a very broad response, especially if broken down into an analysis of who the beneficiaries would be. Referencing

Productivity Commission Questions	LGAQ and *qldwater* Commentary
reform?	again the partnership Memorandum of Agreement between LGAQ, DERM and *qldwater*, Queensland has identified the following benefits from reform: - an outcomes driven and streamlined regulation and reporting regime resulting in better decision making at a local, regional and state level - identification of risks and improvement in the way that risks are managed across urban water service providers - improved pricing arrangements and financial planning within urban water service providers that support the long term sustainability of their water assets / infrastructure - promotion of skills development and careers pathways resulting in improved attraction and retention of skills within the water industry - opportunities for the Local Government water sector to consider innovative service delivery models while continuing to own and manage these assets and provide acceptable levels of service to all local communities. It should be noted however, that these outcomes relate more broadly than just institutional reform.
What would be the costs (administrative, compliance, one-off or ongoing) of introducing these institutional arrangements? How should these costs be met?	Without knowing the model of institutional reform, it is difficult to identify costs, other than it would be safe to assume that the costs would be significant and wide spread. LGAQ and *qldwater* would argue that the costs of reform would need to be shared across all spheres of Government, taking into account capacity to pay / contribute. Alternatively, LGAQ and *qldwater* would argue that costs should be borne by the "instigator" of the change.
Are existing performance reporting exercises effective in promoting improved performance and identifying problem areas? Could such reporting be made more effective?	Existing regulatory reporting requirements have been seen as burdensome without providing a realistic improvement to the industry. In late 2009 LGAQ and *qldwater* conducted a series of workshops and the feedback received noted that there is a need to streamline reporting requirements for water service providers. While reporting is seen as important and useful, the volume and type of reporting currently required provides an onerous reporting burden for Local Governments and is an impediment to improving management practices. Quite often performance reporting is viewed as a compliance mechanism rather than a management tool. In summary, engagement with Local Government and industry resulted in the following recommendations: 1. Streamlining current and future reporting is critical and urgently needed and Local Government and industry must be involved in this process. 2. A rationalised reporting framework and all future requirements should be designed to meet agreed criteria. 3. The industry proposes criteria ensuring that reporting is: a. outcomes-based assessing proactive measures that are useful for management; b. efficient with respect to the type and amount of information appropriate to the risk or issue being managed; c. transparent with clear articulation by agencies of the purpose of reports (e.g. performance assessment, state-of-industry or resource monitoring); d. strategic and holistic across whole of government and not duplicated among and within agencies;

Productivity Commission Questions	LGAQ and *qldwater* Commentary
	e. negotiated with industry to determine appropriate formats, eliminate subjectivity of definitions and determine availability and complexity of information; and f. used to provide feedback to industry and other government agencies that is timely and meaningful. 4. The purpose of reporting must determine the methodology for the collection of data. Industry-based processes to guide data collection are required to ensure accurate and timely reporting. 5. Where comparison or benchmarking is desired, consistency in collection and processing methods, definitions, and communication are paramount. 6. Comparisons among water service providers must take into account the differing expectations of customers across the State and their willingness to pay for different levels of service. 7. Reporting to customers must be designed specifically to be clearly presented with comparisons to standards or benchmarks that are meaningful to customers to avoid misinterpretation. Noting the above, under the auspices of the Memorandum of Agreement between LGAQ, DERM and *qldwater*, discussions have been held on the need to better align industry reporting requirements while ensuring adequate and safe water provision. To date these discussions have been positive.
Is there merit in having a single entity that administers prices for water and wastewater services in each jurisdiction?	As noted in LGAQ's policy statement Local Government accepts that significant Local Government water retailers should be subject to price oversight by an independent body. However, retail water pricing must remain the responsibility of each water retailer, recognising the varying circumstances that exist. As such the independent price regulation would only be effective where the conditions of the price regulation are variable. LGAQ and *qldwater* while understanding the merit of independent price regulation would be concerned with how an independent price regulator would be effective across different jurisdictional, regional, climatic and scheme variability.
Should independent price regulation be used more widely in the Australian urban water sector?	LGAQ has no policy position on this matter and is therefore unable to comment.
Is there merit in having a national approach to economic regulation of water and wastewater services?	LGAQ has no policy position on this matter and is therefore unable to comment.
Are the existing regulatory arrangements for protection of water customers — including hardship policies — effective? Are there improvements that could be made?	LGAQ and *qldwater* are unable to comment on this question.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
What type of regulatory arrangements are efficient for the urban water sector? *• At what point in the urban water supply chain should these regulations apply?* *• What are the benefits and costs of these arrangements?* *• Should the same regulatory arrangements apply in both metropolitan and regional urban areas?*	LGAQ and *qldwater* are unable to comment on this question.
What is the appropriate role for government with respect to regulation of the urban water sector?	LGAQ and *qldwater* believe there is a role for Government, particularly at the state level to ensure that regulatory reporting requirements pertaining to essential water and demand management outcomes (particularly in the areas of water quality and supply) are adequately met. However, it is also of vital importance that the Government provide assistance in relation to these reporting requirements where there is a lack of capacity to deliver such results. As mentioned earlier, adequate support services for laboratory testing and skills training are essential for service providers to meet these requirements. In many instances, particularly in smaller service providers, this capacity is severely lacking. Both LGAQ and *qldwater* would therefore advocate that it is the responsibility of the regulator to ensure compliance, but also provide assistance to those providers who lack the capacity to meet the expectations of the regulator.
How should the scope and detail of the urban water regulatory framework be determined? By whom? What are the relevant considerations in setting this regulation?	The development of a new regulatory framework should involve representatives from all spheres of government as well as industry. As discussed throughout this submission, LGAQ and *qldwater* support an outcomes driven regulatory framework with appropriate supporting mechanisms where gaps in capability and capacity are identified. As such, both LGAQ and *qldwater* would argue that "outcomes" from regulation as opposed to "processes and plans" from regulation should be a key consideration in determining any new framework. Other key considerations would include the adaptability of the regulation to regional differences as also highlighted throughout this submission.
Are the existing drinking water, wastewater and recycled water, environmental health and building and planning regulations efficient? Is the regulatory requirement too burdensome? Too weak? What are the costs and benefits of these regulatory arrangements?	The myriad of reporting required by DERM has long been a concern and frustration of water service providers across the State The Queensland water industry has long requested a shift of focus from regulation of management plans to more outcomes-based regulation of achievement of outcomes. A streamlined, 'single' plan is merely a step in achieving such an approach. A preferred model would be for plans to be supported by both the State and water service providers, but not a regulated requirement. Rather, the regulator would monitor specific outcomes from implementing plans through exceedence-reporting of specific indicators, routine audits and targeted annual reporting. Penalties would be associated with wilful failure to meet mandatory requirements.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
	It is recognised that many small service providers will need significant support with capacity building and that some have rate bases too small to sustainably develop modern water services. It is also clear that some issues will demand significant resources and it is acknowledged that there is currently insufficient funding available at all levels of government to address all the challenges facing the industry. Reporting to the State regulator is recognised as an essential safety mechanism for any water industry. The Queensland industry has long argued that the current regime being developed by the DERM with a focus on approval of management plans neglects implementation and achievement of appropriate outcomes from such planning. A preferred reporting approach would focus on key performance indicators that reflect the management effectiveness, efficiency and sustainability of service providers.
Is there a 'preferred' structural arrangement for the urban water sector? *• Does this vary by jurisdiction?* *• Does this vary between metropolitan and regional urban areas?*	Referring back to LGAQ's Policy Position, LGAQ supports a structural model where Local Government retains control of their water assets, planning and decision making processes with respect to water on behalf of the communities which councils are elected to serve.
What are the benefits and costs of undertaking particular structural reforms?	LGAQ and *qldwater* have no comments to make on this matter until appropriate structural reforms are identified with the industry stakeholders.
What option(s) (that is, package of institutional, governance, regulatory and structural arrangements) would facilitate the urban water sector best meeting its objectives? What makes this option(s) superior to other possible options?	Given the challenges (which have been touched on previously) facing the urban water sector in Queensland, LGAQ, *qldwater* and DERM are partnering on a package of activities focusing on: - Water Security - Demand Management - Drinking Water Quality - Asset Management - Sustainable Investment Program (Pricing) - Risk Assessment - Organisation Capacity Development & Reporting - Opportunities for Local Governments to consider innovative service delivery models while continuing to own and manage these assets and provide acceptable levels of service to all local communities. LGAQ and *qldwater* strongly support a partnership approach between State Government, Local Government and Industry as it: - Provides a united position on key issues and challenges; - facilitates meaningful consultation; and - Ensures ongoing relationships are established to ultimately assist in ensuring the effective implementation of project or policy outcomes.

Productivity Commission Questions	LGAQ and *qldwater* Commentary
What costs and risks would be involved with this option? How would the costs be met and the risks managed?	Relating this question to the current approach being pursued in Queensland, LGAQ and *qldwater* believe that costs should be shared between the parties, but informed by an entities' capacity to pay. Obvious risks include financial, political and reputational risks. However, these can be managed and mitigated through a partnership approach based on trust and collaboration.
What role would competition and/or contestability play in this option?	LGAQ has no policy position on this issue and is therefore unable to comment.
If the preferred option varies by jurisdiction or region, what are the key factors (for example, number of connections or number of bulk water supply sources) that are important in matching the option to the location?	Whilst technical issues such as the number of connections or number of bulk water supply sources are important, LGAQ and *qldwater* also draw to the Commission's attention, issues such as community expectations, especially with respect to what level of service a community may expect vs. their capacity or willingness to pay. Local leadership, as well as capability and capacity are also important factors in matching various options to different locations.
Chapter 9 – Implementing Reform – page 42	
What are the priority areas of reform (that is, where are the greatest efficiency gains evident and early action practicable)?	The Association and *qldwater* would advocate the priority areas that reform within the water industry should focus on include industry up skilling and retention, pricing and asset investment, drinking water quality, economies of scale, and the need for effective and suitable regulation. These themes have been presented throughout this submission in varying forms. The delivery mechanism for these themes to be reviewed and subsequently improved however is less transparent. Institutional reform within South East Queensland is not practical on the same scale and as such would not be supported by either LGAQ or *qldwater*. Recent industry led initiatives have attempted to be proactive in addressing some of these issues. A collection of western Queensland member councils under the banner of the Regional Area Planning and Development Board (RAPAD) have understood the challenges facing rural communities and have agreed to investigate regularly convening a technical committee to discuss collaboration and sharing of skills and requirements of 'like' water service providers. LGAQ and *qldwater* have been broadly in support of this approach, particularly given the successes of similar approaches in dealing with issues relating to roads and integrated transport networks.
How important is the sequencing of reforms? Are there actions that need to be	Whilst LGAQ and *qldwater* don't have any specific comments about "sequencing", both LGAQ and *qldwater* would argue that stakeholder commitment to the reform process is essential and this can only be achieved through genuine and early engagement of key stakeholders in the

<table>
<tr><th>Productivity Commission Questions</th><th>LGAQ and qldwater Commentary</th></tr>
<tr><td>taken initially to prepare the way for later reforms?</td><td>formation and implementation of the proposed reforms. For example, proposed reforms in Queensland would require elected member commitment (at a council level) to the changes in order for them to be successful. Identifying shortcomings in capacity and capability and providing supporting programs is, in LGAQ and qldwater's opinion, also essential to the successful implementation of reforms.</td></tr>
<tr><td>What role should the Australian Government have in urban water reform? Should the Australian Government make financial payments to states and territories that reach reform milestones? If so, what would be the rationale for such payments? If not, is this because such payments might actually hinder efficient reform?</td><td>LGAQ has no policy position on this issue and is therefore unable to comment.</td></tr>
<tr><td>What quantitative and qualitative indicators should be used to monitor efficiency gains in the urban water and wastewater sectors?

What quantitative and qualitative indicators should be used to monitor efficiency gains in the urban water and wastewater sectors?</td><td>Through consultation with its members, qldwater has proposed the following key performance areas and associated reporting mechanisms. It should be noted that this reporting framework assumes that management plans are a necessary but un-regulated element of water management.
<table>
<tr><th></th><th colspan="2">Appropriate Reporting Requirements</th></tr>
<tr><th></th><th>Reporting to Regulator</th><th>To Public</th></tr>
<tr><td>Discharges to the environment</td><td>• annual reporting against discharge licence
• incidents/exceedences</td><td>• annual reporting on licence targets and success in meeting them.</td></tr>
<tr><td>Drinking water quality</td><td>• draft monitoring program for approval
• incident/exceedence reporting
• annual reporting of water quality parameters tested and results
• audits of risk management processes</td><td>• annual reporting on drinking water quality targets and success in achieving these</td></tr>
<tr><td>water security</td><td>• reporting required under regional planning arrangements</td><td>• reporting on success in meeting regional water planning targets</td></tr>
<tr><td>pricing</td><td>• appropriate water pricing with respect to agreed pricing principles</td><td>• principles agreed by the industry and service provider's pricing policy with state-wide benchmarks.</td></tr>
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Productivity Commission Questions	LGAQ and *qldwater* Commentary
	The reporting requirements summarised in the above table could be achieved through the following reporting mechanisms: 1. Annual reporting against policy requirements and agreed principles. 2. Annual reporting of numeric KPIs to regulator and public via SWIMonline system a. standard NPR (ex WSAA) KPIs for large provider and appropriate subset for smaller service providers, b. other indicators required by the regulator (e.g. existing "SAMP" KPIs collected through SWIM) c. annual water quality summary d. compliance with discharge licence standards 3. Incident Reporting (e.g. drinking water quality and discharge quality) 4. Auditing or DERM approval of specific components of water management to assure quality (e.g. drinking water quality monitoring program, asset management program, pricing methodology, NPR indicators).

Appendix A: LGAQ Policy Statement – Water Supply and Sewage

8.5 Water Supply and Sewerage

8.5.1 Institutional Arrangements

8.5.1.1 Local Government recognises that water is a resource that should be shared equitably across each region through institutional arrangements that best facilitate efficient service delivery and resource use.

8.5.1.2 The State Government must ensure that no community is substantially disadvantaged in terms of basic access to, and price of a reasonable supply of potable water, as a community service obligation.

8.5.1.3 Local Government believes that water demand and supply planning across the State, including the establishment of adequate levels of service provision to the community, should be lead by the State Government, with active involvement of Local Government as a key stakeholder.

8.5.1.4 Where reform of current institutional arrangements is considered necessary to enhance security, sustainability and efficiency of water services, there should be full consultation with the LGAQ and all Local Governments likely to be affected by any proposed changes.

8.5.1.5 Local Government believes that any change in current water institutional arrangements should seek to build on existing roles, responsibilities and relationships reflecting the existing partnership approach between the State and Local Governments and amongst Local Governments.

8.5.1.6 Where regional water supply schemes across a number of Councils are necessary, Joint Local Governments or Local Government owned corporations are the preferred approach rather than a separate Statutory Authority.

8.5.1.7 The role of individual Councils in water retailing should be maintained in any changes to institutional arrangements.

8.5.1.8 Where any water infrastructure is subsumed into new bulk supply institutional arrangements, there should be a guarantee of full compensation for current owners.

8.5.2 Funding Arrangements

8.5.2.1 Local Government will advocate that the Commonwealth and State Governments, through COAG, must recognise the need for greater capital investment in water infrastructure to meet future needs and foster regional development.

8.5.2.2 Local Government requires openness and transparency in assigning externality charges to water providers. Externalities include environmental costs as well as water resource planning and management costs.

8.5.2.3 Local Government will advocate for the return of revenue raised from National Water Agreement imposed externality charges to ongoing investigations and planning as well as investment in future water infrastructure needs including dam safety upgrades.

8.5.2.4 Local Government will seek contributions to the cost of long term regional water infrastructure through instruments such as the development of infrastructure charges plans.

8.5.3 Pricing Regime

8.5.3.1 Local Government accepts that significant Local Government water retailers should be subject to price oversight by an independent body. However, retail water pricing must remain the responsibility of each water retailer, recognising the varying circumstances that exist.

8.5.3.2 In setting retail prices, Local Government recognises the need for pricing regimes which encourage efficient use of water resources. This will generally be achieved by use of two-part tariffs including, where appropriate, inclining block tariffs.

8.5.3.3 Where separate institutional arrangements exist for bulk water supply within a region, a common "postage stamp" approach to pricing is generally preferred by Local Government rather than one based on differential nodal pricing.

8.5.4 Operations

8.5.4.1 Local Government is committed to best practice in water use, implementation of sustainable urban water management and development of strategies to:
- reduce demand for water to improve the efficiency of use;
- reduce supply losses;
- increase the re-use of water;
- increase use of stormwater for urban and household demands;
- improve community awareness of water management issues.

8.5.4.2 Where regional arrangements for bulk water supply exist, Local Government accepts that there should be common rules set for supply restrictions and minimum service levels by the body responsible for water supply planning.

8.5.4.3 Time of day tariff structures for electricity should be available to allow Local Government to minimise operating costs of water supply and sewerage systems.

8.5.4.4 Local Government is committed to rationalising the system of water information reporting by Local Government to reduce inefficiencies, eliminate duplication of reporting mechanisms and improve information for water planning and security.

8.5.5 Sewerage Management

8.5.5.1 Local Government recognises that it has primary responsibility for the collection, treatment and disposal of effluent in urban areas.

8.5.5.2 Local Government acknowledges that effluent should be treated to a standard that prevents it from having a significant adverse impact on the receiving environment and that meets any relevant legislative requirements.

8.5.5.3 Any increases in the standard of treatment required for effluent should be phased in over an appropriate period and be accompanied by an appropriate level of State or Federal Government funding.

8.5.5.4 Local Government fully supports the beneficial reuse of sewerage as a strategy to mitigate the adverse environmental effects of releasing treated sewerage to waterways and as a strategy to achieve sustainable urban water use.

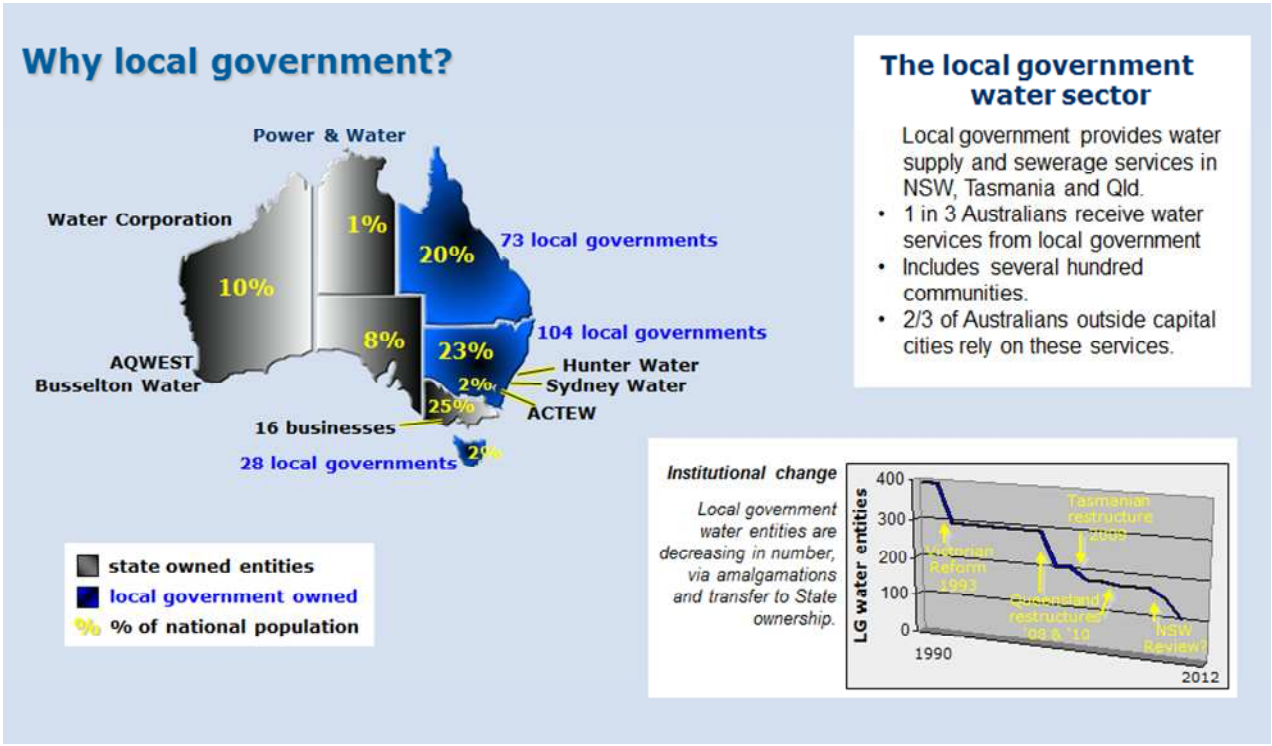
8.5.5.5 Decisions relating to the options pursued for the reuse of effluent should remain within the jurisdiction of Local Government.

8.5.5.6 Local Government supports a State Government licensing regime that is based on mass loads of nutrients released to receiving environments.

8.5.5.7 The reuse of greywater in sewered areas should only occur where Local Government can be satisfied that the public health implications and soil and climatic conditions can be appropriately managed.

Appendix B: *qldwater* Skills Formation Strategy

Local Government Water Sector in Australia



Structures to Support Water SFS

Water SFS ILG

	Branding	Training and education	Capabilitypla nning	Policy/ partnerships
	Competitor analysis eg mining Create brand – defining an industry Review national activities and look for synergies Internal awareness of skills development vs external marketing (link to attraction and retention) Alignment of qualifications with national definitions Focus on sustainable aspects of industry	RTO partnerships Promote accredited training Regional adoption model Capability mapping Funding, higher level certs, trades Higher education, customised relevant courses Training broker proposal?	Attraction & retention -Angles beyond water cycle/ sustainability -Career pathways -Capability mapping -Link to national strategy -Regional strategy -Awards/ rewards analysis Workforce demographics analysis Demand forecasting Benchmarking Models/ templates for industry	DET investment priorities DERM Industry" MoU DIP (LG), LGAQ – awards QWC/ COMSEQ Informing mandatory quals process Commonwealth initiatives - QWC
Key stakeholders	AWA WSAA GSA WIOA Employers DERM VicWater, NSW WD Schools, students, teachers	RTOs GSA DET Employees Employers DERM and OWSR AWA WIOA	Employers Employees DERM LGAQ	TBA
Committee participants?	CEOs HR managers Business managers/ marketing depts	Training Managers HR Managers Industry SME?	HR Managers Managers of water Other industry for Benchmarking Union reps LGAQ	TBA

Capacity Building for Urban Water Service Providers