Local Government
Association of NSW

Shires Association of NSW

SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO AUSTRALIA'S URBAN WATER SECTOR	
DATE	*November 2010*

GPO Box 7003 Sydney NSW 2001
Lev 8, 28 Margaret St Sydney NSW 2000
Tel: (02) 9242 4000 Fax: (02) 9242 4111
www.lgsa.org.au lgsa@lgsa.org.au

1. Introduction

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

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

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

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

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

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

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

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

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

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

2. Institutional and regulatory framework

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

Best practice

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

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

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

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

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

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

Inquiry into Local Water Utilities

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

[1] NSW Office of Water, *2008-09 NSW Water Supply and Sewerage Performance Monitoring Report.*
[2] National Water Commission and Water Services Association of Australia, *National Performance Report 2008-2009 - Urban Water Utilities*, page 24.
[3] Ibid, page 16.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Integrated water cycle management

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

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

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

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

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

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

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

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

Economies of scope

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recent examples of regulatory inconsistency and confusion include:

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

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

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

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

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

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

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

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

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

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

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

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

3. Competition

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

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

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

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

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

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

4. Local Government water management and water conservation activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Conclusion

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

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

Formatted: Justified

Appendix 1 – The binding alliance model

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

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

Functions of the alliance

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

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

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

Function of member councils

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

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

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

A good example

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