



## **SUBMISSION IN RESPONSE TO THE AUSTRALIAN GOVERNMENT PRODUCTIVITY COMMISSION INQUIRY INTO AUSTRALIA'S WATER SECTOR**

28<sup>TH</sup> June 2011

### **INTRODUCTION**

The Riverina and Murray Regional Organisation of Councils (RAMROC) welcomes this opportunity to respond to the Productivity Commission Report into Australia's Urban Water Sector.

RAMROC congratulates the Commission on its comprehensive and wide ranging report.

This submission proposes to specifically address Chapter 13 of the Commission's Report and Draft Recommendations, dealing with Reform in Regional Areas.

The eighteen RAMROC Member Councils are most strongly of the view that the control and management of water and sewerage services in New South Wales should remain under the ownership and control of Local Government Local Water Utilities and County Councils as currently structured.

Virtually all of the RAMROC Member Councils successfully operate their own water, sewerage, stormwater and drainage services, in accordance and compliance with the NSW's Government Office of Water Best Practice Management Guidelines. In two shire areas, Urana and parts of Greater Hume, water supplies are delivered by the Riverina Water County Council area based in Wagga, with the Shire Councils providing wastewater, stormwater drainage and associated water related services.

Conargo Shire, with headquarters in Deniliquin, is a large and sparsely populated rural area and that Council does not operate any potable village water supply services.

RAMROC recognises that the Productivity Commission Report, along with other recent reports by the National Water Commission and Infrastructure Australia (AECOM Report), are proposing that structural reform is required in regional New South Wales, specifically the aggregation of small water and wastewater utilities.

If aggregation of utilities in some form, albeit considered by RAMROC to be unnecessary, is in fact forced eventually by the Commonwealth and New South Wales Government as the best option to resolve perceived inefficiencies and shortfall in performance under the existing arrangements, RAMROC Councils argue that in the Riverina and Murray regions at least, any such concerns can be most effectively addressed by way of implementing an Alliance Model, as proposed to and recommended by the Armstrong/Gellatly Inquiry Report.

RAMROC Councils are adamant that the establishment of State owned regional water corporations is neither necessary nor beneficial to customers and communities. Recent experience with our nearby Victorian Regional Water Corporations has clearly resulted in huge increases in costs, no evidence of improved services and in some cases incidents of institutional and financial deterioration. It is interesting to note that the Victorian Essential Services Commission has recently approved yet another further substantial increase in water charges for 2011-2012, ostensibly to keep these regional authorities in business and able to undertake some infrastructure works.

Of utmost importance from our perspective is to ensure the future of rural communities in our region. The retention of Local Government Water Utilities is a critical component of protecting the communities from the loss of jobs, businesses, families and services. Furthermore, the water and sewerage functions within Councils are tremendously important in maintaining the flexibility of workforce and in maintaining long term financial sustainability.

If in fact there are shortfalls in water and sewerage standards within some of the smaller rural LWUs, these can surely be overcome with the availability adequate of government financial assistance and the sharing of resources and expertise. There is simply no purpose in destroying

rural communities when appropriate solutions are identifiable, available and able to be readily implemented.

## **RAMROC REGION PROFILE**

RAMROC represents the interests of eighteen member Councils in the Murray and Western Riverina region of south west New South Wales.

The region covers an area of 126,595 sq km and has a total population of 165,474 (March 2010 ABS Statistics). The southern part of the region extends along the Murray and Lower Murray-Darling Valleys, from Greater Hume Shire and Albury City at the eastern end through to the South Australian border in the west.

The northern and western part of the RAMROC region extends generally within the Murrumbidgee and Lower Lachlan Valleys, westward from Narrandera Shire.

A map showing the RAMROC region in its context to the capital cities of Sydney, Canberra, Melbourne and Adelaide, together with the boundaries of the 18 Council areas, is attached.

The RAMROC region has a mix of large regional centres, medium sized irrigation based towns and urban shires, through to a number of predominantly rural shire areas, large in size but with low population. The major regional centres are Albury City (population 50,522) and Griffith City (pop. 25,703).

## **WATER MANAGEMENT PERFORMANCE IN NSW**

Further to the general comments above, it is worthwhile to note some relevant facts about the ability and performance of the 106 NSW Local Government LWUs to successfully manage water, sewerage and associated functions:-

- Annual Performance Reporting and Monitoring to the NSW Office of Water has been in force since 1986;
- Strategic 20 year Strategic Business Planning has been in force since 1993;
- Performance is reported by LWUs with a triple bottom line focus on social, environmental and economic indicators;
- Performance monitoring and benchmarking are required under National Competition Policy and the National Water Initiative – and is strongly endorsed by IPART;
- Compliance with Best Practice Management Guidelines – in 2008-2009 there was an overall compliance of 82% for 19 specified requirements – 86% for water and 78% for sewerage;
- 89% of LWUs have a sound Strategic Business and Financial Plan – implementation of these plans will ensure long term sustainability of W&S services;
- Full cost recovery of 96% of LWUs for water supply and 97% for sewerage are in place;
- Significant reductions of 47% in residential water consumption levels over the past 20 years – current residential average of 175kl per annum - resulting in commensurate savings in infrastructure and operational costs;
- Reduction in water use has been influenced by strong pay-for-use water pricing (median water charge of \$1.50/kl), together with implementation of water conservation and demand management measures and also impacted by water restrictions brought about by drought conditions;
- Strong compliance in compliance with 2004 Australian Drinking Water Guidelines for microbiological, chemical and physical water quality – 99% compliance of 20,700 samples tested for E.coli in 2008-2009, with 88% of utilities complying;
- Councils are well experienced and best positioned to integrate strategic water and sewerage planning, stormwater and drainage management, strategic urban planning, land use control and economic development strategies.

## **WATER MANAGEMENT PERFORMANCE - INTERSTATE COMPARISONS**

To provide an overall assessment of LWUs in NSW, key performance indicators (KPIs) are compared with interstate utilities. Some comparisons, as extracted from the NSW Office of Water 2008-2009 Monitoring Report, are as follows and they re-affirm the strong performance currently being achieved by NSW LWUs:-

### **Social factors**

- **Compliance with microbiological water quality guidelines** was high (99% of the 20,700 samples tested) – similar to most other Australian utilities;
- **Water quality complaints** were low and similar to most other Australian utilities;
- **Typical residential bill (TRB)** was lower than Perth, Canberra and Sydney, but higher than country Victoria and other capital cities. However, the first step water usage charge of \$1.50/kl in NSW provides a strong price signal to encourage efficient water use;
- **Water main breaks** have remained much lower than all other states – indicating good water main asset condition.

### **Environmental factors**

- **Annual residential water supplied** per connected property was similar to country Victoria and lower than all other Australian states and capital city utilities, except Melbourne and Brisbane;
- **The percent sewage treated that was compliant** was higher than country Victoria and most of the capital city utilities;
- **Sewer main breaks and chokes and sewer overflows to the environment** were at about the median of the other Australian utilities – 38,000 ML of effluent was recycled in country NSW in 2008-2009, which was 23% of the volume of sewage collected. The statewide median **percent of effluent recycled** has remained at 10%, which is lower than country Victoria, but higher than Brisbane, Perth, Sydney and Hunter Water.

### **Economic factors**

- **Economic real rate of return** was higher than country Victoria but lower than the capital cities;
- **Annual median operating cost (OMA)** for water was \$330 per connected property – lower than the country utilities in all other states, but higher than most of the capital city utilities;
- **The median cost for sewerage** was \$340 per connected property, which was similar to country Victoria but higher than capital city utilities;
- **Revenue from community service obligations** was higher than the Queensland utilities, but lower than all other Australian utilities;
- **Net debt to equity** was lower than all other Australian utilities except for Brisbane

## **NSW INQUIRY INTO SECURE AND SUSTAINABLE URBAN WATER SUPPLY AND SEWERAGE SERVICES FOR NON METROPOLITAN NSW – RAMROC'S STRATEGIC ALLIANCE PROPOSAL**

In late 2007, the NSW Government appointed an Independent Panel Inquiry to inquire into non-metropolitan water and sewerage services. This Inquiry was conducted over several months from January to June 2008 by former Deputy Premier the Hon Ian Armstrong OBE and the former Head of NSW Premier and Cabinet Col Gellatly AO.

The drivers for this Inquiry, as outlined in the Terms of Reference, were the “growing challenges posed by drought, climate change, environmental water allocations, demographic shifts, technological advances and skills shortages”.

The NSW Water Minister set specific Terms of Reference for the Inquiry and sought the development of options and proposals from the 106 local water utilities for implementation of new governance arrangements, the objective being to improve the overall performance of water management throughout rural and regional NSW and to address the issue of forecast skills shortages likely to impact over coming decades.

The organisational structure options that were presented to the Inquiry for consideration predominantly comprised:-

- Binding Alliance Model;
- County Council Model;
- Council Owned Regional Water Corporation;
- The Status Quo.

The inquiry concluded that not all options are suitable for all situations. A “one size fits all” solution was found to be impractical because of the great diversity in geographic and socio-economic conditions across NSW.

As already mentioned, RAMROC Councils are of the firm view that substantial reform is not necessary and that the performance of NSW water and sewerage utilities compares very favourably with utilities in other states and in particular with the recently created regional water authorities in Victoria and Tasmania.

However, RAMROC proposed to the Inquiry that there is always room for improvement and that some of the smaller utilities could benefit from establishing closer collaboration with the larger utilities in the region, particularly in the areas of Strategic Planning and Best Practice Management.

Above all, RAMROC was adamant that ownership and day to day management of water and sewerage services must be retained and maintained at the local Council level, this position being based upon a substantial number of sensible and practical sustainability, viability and community reasons.

RAMROC therefore proposed to the Armstrong/Gellatly a **Binding Alliance Model**, which aimed to meet the following **key objectives**:-

- To retain water and sewerage as an integral function of local councils in the Riverina and Murray region – critically important to the long term sustainability of Councils’ workforce flexibility and financial viability;
- To protect the long term “whole of community” interests of councils and local communities;
- To satisfy the Water Industry reform objectives and expectations of all three levels of Government;
- To satisfy the objectives and criteria set out in the Inquiry’s Objectives and Terms of Reference and in accordance with six key criteria specified by the Water Minister.

RAMROC proposed the **formation of an overarching Alliance entity** along the following lines:-

- A Company established under Corporations Law, or alternatively an Alliance under specific NSW Local Government Act provisions;
- An entity which is wholly owned and driven by the Member Councils.

RAMROC envisaged the **principal responsibilities of the Alliance** to be as follows:-

- Highest level strategic direction and planning in co-operation with the Member Councils;
- Prioritise and project manage the identified major infrastructure projects/works for the region, in accordance with an overall region wide strategic plan, on behalf of the member councils;
- Report directly as the responsible regional body directly to the State Government’s Department of Water and Energy (i.e. the NSW Office of Water) for the overall performance and standards of water and sewerage provision in the region, including environmental and health standards compliance;
- Ensure water and sewerage Best Practice compliance for:-
  - Integrated water cycle management (IWCM)
  - Strategic business planning at both council and regionally co-ordinated level;
  - Long term financial planning at both council and regionally co-ordinated level;
    - Pricing (oversighting/template specification)
    - Water conservation and demand management
  - Drought management
  - Annual performance reporting

- Management of regional:-
  - Geographic Information Systems
  - Asset Management Systems
  - Other IT Systems as required

The day to day **responsibilities and functions of the Member Councils** were considered in the RAMROC Alliance model to be as follows:-

- Retain ownership of assets and liabilities;
- Maintain asset management at local level, feeding into the Entity's overall asset management and planning;
- Agree with Entity on annual operating budgets developed in accordance with long term strategic business and financial planning;
- Enter into annual service level agreements with the Entity for day to day employment, administration, human resources and operational functions;
- Make budgetary provisions for payment to the Entity of formula based annual contributions for the Entity's operating costs;
- Agree with Entity on establishing sustainable pricing structures, based on Best Practice Principles;
- Retain local pricing function in accordance with the established pricing principles;
- Maintain environmental and health standards in accordance with service level agreements and report on these to the Entity.

RAMROC's submission to the Inquiry set out the following **anticipated advantages of the alliance model**:-

- Alliance Entity is fully owned and managed by Member Councils;
- Councils retain ownership of their water and sewerage assets and their water entitlements and allocations;
- Jobs for multi skilled employees are retained in local councils and communities;
- Councils retain control of day to day W&S operations;
- Councils retain local control of long term urban planning;
- Councils' economic development attraction strategies are reinforced;
- Draws on goodwill and resources of larger members (Albury and Griffith Cities) and makes best use of expertise and resources of councils as a skills based network;
- Flexibility of structure which can grow with success to provide enhanced service levels;
- Protects overall financial sustainability of councils;
- Tariffs set by individual councils - based on consistent principles;
- Improved overall regional performance of W&S functions through collaboration and shared expertise;
- Improved opportunities to access funding from Governments for W&S infrastructure;
- Potential to achieve new and upgraded infrastructure at much earlier times through advocacy strength;
- Opportunities for group cost savings from resource sharing and group purchasing activities;
- Member Councils have direct access to specialist technical expertise and advice;
- Performance reporting by councils through RAMROC Water to Office of Water is facilitated and co-ordinated;
- Provides an effective model for the RAMROC region, recognising that there is no single model that is suitable for all areas, i.e. it is not practicable to apply a "one size fits all" policy across the State.

The recommendations of the Armstrong / Gellatly Inquiry are generally in line with the RAMROC Alliance Model. The recommendations seek to maintain Council ownership and management of water and sewerage service, whilst centralising the planning and reporting functions, as well as mandating planning requirements and "best practice" pricing, as well as encouraging collaboration between LWUs to address skills shortages.

The NSW Office of Water has reported in detail to the State Government on the practicability, efficiency and viability of the proposed Alliance models and indications were that the former Labor Minister for Water strongly favoured the implementation of appropriate Alliance based trials, including the RAMROC proposal as the first step.

At this point of time, the new NSW Government has not given detailed consideration to the Armstrong /Gellatly Report, but will have certainly noted your draft recommendation that it do so as a matter of priority.

## **INFRASTRUCTURE AUSTRALIA (AECOM) AND NATIONAL WATER COMMISSION REPORTS**

In relation to the Infrastructure Australia (AECOM) Report, many organisations have identified instances of where the AECOM report is either factually incorrect or has made erroneous statements. RAMROC concurs entirely with the comments made to your Commission by the Lower Macquarie Water Utilities Alliance (LMWUA) and the CENTROC Water Utilities Alliance, and to the issues which were comprehensively outlined in the LMWUA and CENTROC joint submission to Infrastructure Australia.

It is therefore not proposed or necessary for this submission to repeat or expand upon the matters which have already been identified by LMWUA and CENTROC.

However and quite unexpectedly, it appears that the National Water Commission Report has accepted without challenge or enquiry the veracity of some of the information and conclusions of the AECOM Report.

## **PRODUCTIVITY COMMISSION DRAFT RECOMMENDATIONS – AS SET OUT IN CHAPTER 13**

### **Draft Recommendation 13.1**

***There is a strong case for undertaking aggregation of small water and wastewater utilities in regional areas of New South Wales and Queensland. The precise approach – including identification of affected councils and the preferred grouping of councils – should be assessed and determined by relevant State Governments, in consultation with Local Government and affected communities.***

***The process should consider the relative merits of alternative organisational structures, including:-***

- ***County council***
- ***Regional water corporation***
- ***Regional alliance (or regional organisation of councils)***

### **RAMROC comment on Draft Recommendation 13.1**

RAMROC cannot agree that a strong case has already been made for aggregation of LWUs in New South Wales, certainly in the absence of a thorough examination and comparative study of the regional water corporation model in other States and having regard to the overall strong performance of NSW Council owned Local Water Utilities and Water County Councils.

In any event, it is paramount in considering structural reform that a holistic approach be taken of all relevant issues, not simply looking at an LWUs water and sewerage performance in isolation of the socio-economic impacts on its communities, the long term financial management and sustainability of Council and its workforce expertise, skills and flexibility, as well as the importance of Council implementing an integrated water cycle management strategy, including stormwater drainage and harvesting, effluent recycling, drainage and flood control etc.

In New South Wales, the Division of Local Government will be hosting a major strategic planning event in Dubbo on 17<sup>th</sup> and 18<sup>th</sup> August 2011, the theme being ***“Local Government – Destination 2036”***. The purpose of the event will be to consider the major strategic issues that will impact on NSW Local Government over the next 25 years and obviously the future of water and sewerage provision in regional and rural areas is a key issue that will no doubt be fully addressed and considered, specifically in the context of the long term role, functions and ongoing sustainability of Councils and their local communities.

## **Draft Recommendations 13.2**

***13.2.1 The New South Wales Government should provide a formal response to the recommendations of the Armstrong and Gellatly inquiry as a matter of priority;***

***13.2.1 The Queensland Government should commence a similar process, in consultation with Local Governments and communities, to consider the costs and benefits of different structural reform options for the urban water sector in regional Queensland (outside of south-east Queensland)***

### **RAMROC comment on Draft Recommendations 13.2**

In relation to the first recommendation, the NSW Government will need to consider the Armstrong/Gellatly Report, but this also should be in the context of its vision for the future of regional and rural communities generally and the role that Local Government will have in that regard. Again, the Government should not be address the key issues in isolation of looking at the “big picture”.

The second recommendation regarding Queensland really needs to adopt the same approach.

## **Draft Recommendations 13.3**

***13.3.1 Jurisdictions should identify those regional utilities that are unable to provide safe and secure water and wastewater services for economic reasons. In doing so, the relative merits of alternative supply options (including moving to a system of self-supply) should be considered***

***13.3.2 State and Territory Governments should subsidise the provision of water supply and wastewater services in regional areas where it is uneconomic for the utility to provide these services safely and efficiently. This funding should be granted via an explicit Community Service Obligation, and subject to periodic review***

***13.3.3 The case for providing subsidy funding for capital works, financial incentives for reform and assistance for affected local councils should be determined by State and Territory Governments***

### **RAMROC comment on Recommendation 13.3**

Agreed, but again this needs to be an integral component of the overall considerations referred to in 13.2 above.

No doubt there are some areas where Council owned water and sewerage infrastructure is old, has outdated technology or is in a poor state of repair. Assistance to undertake replacement or refurbishment will be required in some areas, to ensure that service standards and public health safety are of the highest order.

State and Territory Governments funding, perhaps with appropriate Commonwealth Government support through Infrastructure Australia, may well be warranted and will be necessary where the necessary infrastructure works involved are beyond the financial capacity of the community and the service provider.

## **Draft Recommendation 13.4**

***State and Territory Governments should undertake regular, public reviews of water and wastewater outcomes in Indigenous communities. Water and wastewater services should be assessed against the same metrics that are used to measure service quality in non-Indigenous communities***

#### RAMROC comment on Draft Recommendation 13.4

Noted and agreed

#### Draft Recommendations 13.5

**13.5.1 Compliance with the health critical elements of the Australian Drinking Water Guidelines should be mandatory, and implemented via legislation**

**13.5.2 Utility performance against all elements of the Australian Drinking Water Guidelines should be publicly reviewed and reported on annually by State and Territory Governments. Sanctions should apply if utilities do not comply with the mandatory elements of the guidelines, and directors and other accountable persons such as councillors should be personally liable for the risks associated with non-compliance**

**13.5.3 Utilities that do not comply with the non-health critical elements of the guidelines must develop and implement a risk management plan (approved by the relevant health department) that will move the utility toward full compliance with all the elements of the guidelines**

#### RAMROC comment on Draft Recommendations 13.5

The NSW Health Act already mandates compliance by water utilities with the Australian Drinking Water Guidelines.

Accordingly, it is important for all service providers to have in place appropriate Water Quality Management Plans approved by NSW Health and NSW Office of water, so as to ensure full ongoing compliance with all elements of the ADWG.

#### Draft Recommendation 13.6

**13.6.1 The Governments of Western Australia, South Australia and the Northern Territory should consider the costs and benefits of replacing the single, jurisdiction-wide public corporation model with a regional water corporation approach (horizontal disaggregation)**

**13.6.2 In undertaking this analysis, relevant State and Territory Governments should consider factors other than scale, including opportunities for yardstick competition, the proximity of utilities to the customers they serve, opportunities for more location-specific pricing arrangements and the effectiveness of water resource management and water system planning**

#### RAMROC comment on Draft Recommendations 13.6

The recommendations are noted.

However, the most effective disaggregated model may not in fact be a “**regional water corporation**” as is apparently presumed in the recommendations.

In some regional and rural areas, the best option may in fact be the Local Government Council as the Local Water and Sewerage Utility. Again, the geography and structural arrangements in Western Australia, South Australia and the Northern Territory are such that a “one size fits all” approach may not be the best solution.

Other alternative structural reform options should be considered, in consultation with all relevant stakeholders and communities



## **SUMMARY**

Local Government in New South Wales is quite clearly best placed to manage the integration of strategic water supply and sewerage services, in concert with stormwater and drainage, urban design, land use zoning and industry/business economic development opportunities.

Integrated water cycle management undertaken by a single utility simply makes good commonsense. To segregate those functions as has occurred elsewhere in Australia and in some parts of NSW makes no sense whatsoever and can often result in a disjointed approach to IWCM, urban planning and regional community development generally.

Structural reform of water and sewerage requires a holistic approach to achieve optimum outcomes for services, Local Government Councils and the communities they serve. These best fit outcomes may in practice vary from State to State and region to region.

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