

20 April 2009

The Hon. Phillip Costa, MP
Minister for Water
Local Water Utility Inquiry
Department of Water and Energy
GPO Box 3889
SYDNEY NSW 2001

Re: Water Directorate response to The Report of the Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW released in January 2009

The Water Directorate appreciates the opportunity to be able to respond to the *Report of the Independent Inquiry into Secure and Sustainable Urban Water Supply and Sewerage Services for Non-Metropolitan NSW* (Independent Inquiry Report) released in January 2009 by the Minister. We also appreciate the Minister's permission to submit this response after the initial closing date of 20 March 2009.

The Water Directorate is a membership organisation with 95 individual council members from across NSW. Since the Water Directorate seeks to equitably represent both large and small member organisations, we were pleased to see that our fundamental position, that "one size does not fit all", was clearly reiterated in the Independent Inquiry Report.

Overall the Water Directorate believes the Independent Inquiry Report is an excellent summary of the current status of the NSW water industry and that many of the observations regarding the complexities and diversities of the structural arrangements are accurate.

Nevertheless we would like to highlight our concerns with some of the key elements of the Independent Inquiry Report. We will focus our comments on the seven recommendations contained within the Independent Inquiry Report:

1. Good Governance

We are satisfied with the recommendation to reduce the number of water utilities from 104 in regional NSW to approximately 32 regional groups. We agree that reducing the number of authorities to about 15, based on catchment authorities, is too drastic and is not compatible with our preferred "one size does not fit all" approach.

2. Improving Organisational Structures

We are generally satisfied with the three models proposed for improving organisational structures but have the following reservations:

- 1) *binding alliances*

The description of binding alliances in Appendix 2 of the Independent Inquiry Report is more onerous and legalistic than is believed to be necessary. The Options Paper prepared by the Institute for Sustainable Futures, UTS in February 2008 used the term “mandatory alliances”, which we believe more truly reflected the philosophy behind such a model. The “mandatory alliance” was described as a *minimalist option, in that it imposes the least change on participating LWUs, which could retain ownership of assets; conduct local operations; and make local decisions.*

The binding alliance model proposed in the Independent Inquiry Report is a model that demands corporatisation through an Alliance Entity and which we believe will not be suitable for all regional groupings.

In addition, to establish such a binding alliance we believe it will be necessary to have seed funding for the administration of the Alliance Entity. This seed funding will be difficult to secure from within most council budgets and without assistance from the requisite government department or funding program it is unlikely that a majority of the 18 or so regional groupings will be able to afford to choose a binding alliance model.

The Water Directorate is currently represented on a few key industry working groups seeking to better define the entity known as a binding alliance. We want to continue being involved with these groups, such as the working group convened by the Minister and DWE that met recently on 9 April 2009, so we can influence the shape and nature of binding alliances.

2) *council-owned regional water corporation*

It is recognised that this model will remove the day to day operations and ownership of the utilities assets from the parent councils. This may be the preference for some member Councils, but it is also recognised that further investigation and quantification of the net benefits and costs to local communities of this model needs to be carried out.

3) *current structural arrangements for some large general purpose councils and county councils*

We are satisfied that those LWUs that meet the criteria are able to continue to stand alone. However, if some of the larger LWUs express an interest in being part of an adjacent binding alliance for whatever reason, then this approach should not be discouraged.

3. Improving Regulation

We believe the introduction of the Best-Practice Management of Water Supply and Sewerage Guidelines by DEUS in 2004 and most recently updated by DWE in August 2007, has provided all LWUs with a framework for improving regulation. We encourage our members to comply with these Best Practice Guidelines and would like to see that all Councils meet the criteria.

4. Improving Pricing

Water and sewer charges set by country Councils are done so through a transparent and credible process each year as part of the adoption of each Council's management plan. A draft management plan is debated through the local political process annually by elected community representatives, then is placed on full public exhibition to obtain public comment for a period of one month, and is then redebated by the elected representatives of the community. This process provides for maximum input from all community stakeholders.

However, it is agreed that the political process within Council should not be permitted to over-ride a properly documented revenue strategy already adopted as part of the strategic business planning process for a Council's water utility functions, given that the business planning process itself has ample opportunity for both public and elected Councillor input. There are therefore already a number of processes that could be further reformed without the need for independent oversight of prices.

5. Cutting Red Tape

State Government agencies are continually evolving and changing in both the structure and scope of their responsibility. It is extremely challenging for the LWUs to keep up with the changing goals and objectives of these various agencies particularly when their areas of responsibilities overlap or duplicate that of another department.

There is an increasing concern amongst local government water utilities at the delays and impediments associated with a number of current approval processes. We are keen to see the renewal of the informal working group that was managed by DEUS to investigate potential improvements in the level of service provided by departments such as DWE, DLG, NSW Health, DECC, CMAs and Statewater.

Efforts by the NSW Government to reduce red tape and legislative reporting requirements would be very welcome.

6. Consumer Protection

The Water Directorate members clearly recognise the need to be held accountable to their ratepayers and customers and there are already a number of structures and processes within the local government framework that mandate this accountability. Nevertheless, it is recognised that the EWON scheme may be an appropriate tool for some LWUs and at least one member Council has applied for membership of EWON. It may not, however, be of any net benefit to some members and it is believed that this extra level of oversight to local water utilities should be voluntary.

7. Skills Shortages

The Water Directorate is very keen to participate in programs or initiatives that may assist with reducing the skills shortages in regional LWUs. We currently actively promote the AWA initiatives, support the IPWEA Skills Shortage seminars and have a Conference Attendance Award to encourage younger engineers to remain in the industry through attending and networking at Australia's largest water conference each year.

Additional Comments

The Water Directorate believes it is very important to adopt a two year trial period with more than one model of the three preferred options trialled during this time. We believe that a two year trial period will foster the following:

- Full implementation of best practice guidelines from DWE
- Develop a sustainable governance structure
- Promote skill sharing and technical assistance amongst staff at different LWUs
- Actively promote resource sharing to encourage economies of scale

In addition, for some LWUs it will be important that a deadline for forming alliances is not introduced that will disadvantage their negotiations with potential members. Some LWUs will need to take extra time to formalise their alliance groupings as they are still exploring which options are best suited to their circumstances. Therefore the two year trial period will give these councils an opportunity to explore and observe regional models that may be suitable for their councils.

The Water Directorate also believes that it is very important that DWE continues to convene a working group that meets on a regular basis to discuss issues that arise during the trial period. Representatives of DWE, the Minister's office, the LGSA, the Water Directorate and all other stakeholders should be able to be involved in the working group to provide feedback and guidance to regional groupings on the implementation of the binding alliance model/s.

The Water Directorate has been in consultation with the LGSA on a number of occasions recently regarding our response to the Independent Inquiry Report and we also intend to endorse the LGSA's position following the finalisation of its response paper after the LGSA Forum on 22 April 2009.

We look forward to continuing to work with the State Government to explore the full nature of binding alliances with a view to developing a framework over the next 2 to 3 years. Please do not hesitate to contact myself on (02) 6801 4800 or Gary Mitchell on (02) 8267 3010 should you require any further information.

Yours sincerely



Stewart McLeod
Chair