

Industry Feedback

qldwater consolidated feedback



Feedback on Productivity Commission Draft Report on National Water Reform

October 2017

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1. Background

The Queensland Water Directorate (**qldwater**) is the central advisory and advocacy body within Queensland's urban water industry representing the majority of the State's Water Service Providers, from small local governments up to major utilities including Queensland Urban Utilities and Unitywater. **qldwater** works with its members to provide safe, secure and sustainable urban water services to Queensland communities. This collated response was compiled for the Australian Productivity Commission in response to the [Draft Report on National Water Reform](#).

2. Collated Industry Response

This response is collated from a limited number of written submissions, phone interviews and general discussion with members and the **qldwater** Technical Reference Group as well as the Steering Group for the Queensland Water Regional Alliances Program. The timeframe allowed for responses was insufficient to seek written feedback from a broad cross-section of the sector. We were unable to participate in public hearings due to the cancellation of the proposed Brisbane public hearing and scheduling difficulties with Melbourne, but welcome the opportunity to discuss any aspects of this submission or the broader draft paper.

3. General Issues

In general, **qldwater** believes that the engagement process undertaken by the Commission in developing this report has been strong and the Draft Report reflects much of the sector's input to date. The acknowledgement of the efforts in Queensland to explore regional cooperation and collaboration to identify and increase efficiencies through the Queensland Water Regional Alliances Program is appreciated. All five existing regions have built real commitment to regional collaboration and accrued financial benefits despite some economies of scale being difficult to achieve because of size and distance. There is still work to be done and **qldwater** concurs with the statement that:

About half of small providers (with fewer than 10 000 connections) in New South Wales participate in some form of regional collaborative arrangement or obtain services from a larger regional entity, and 18 of 50 small providers in Queensland participate in the Queensland Water Regional Alliance Program. While these jurisdictions have made progress, there is likely to be further scope for them to capture economies of scale through collaboration (p. 32).

It should be noted that a number of additional small service providers have shown interest in regional collaboration and some are currently forming bilateral arrangements with larger neighbours. Others are awaiting determination of whether the QWRAP initiative will be continued after June 2018.

Despite the support for the Commission's approach, there are some issues included in the Draft Report that raise concerns for the Queensland urban water sector. General issues are

listed below with suggested solutions to address the sector's concerns. More specific queries are treated in the following section.

Issue # 1: Economic Regulation

Draft Recommendation 6.1 states:

State and Territory Governments should ensure that independent economic regulation is in place for all urban water service providers of an appropriate scale, to further promote efficient service delivery.

including, as a priority to extend “independent price regulation to retailer-distributors in south-east Queensland”. The recommendation is aimed primarily at SEQ and large (> 10,000 connections) service providers. The preferred mechanism appears to be national guidelines to drive a state-based approach through the QCA and:

Confidence in the price-setting processes would be enhanced by giving these regulators a standing reference to review or set prices, rather than leaving the occurrence of a review subject to Ministerial discretion (p. 175).

Problem

qldwater agrees with the Commission that “good governance, economic regulation and competition support efficient service delivery” (p. 170) but questions the ability of the Queensland Government to implement this form of approach. The reasons for this doubt are provided elsewhere in the draft report. For example:

Further:

It is relevant to note that the Queensland Competition Authority previously monitored prices charged by the south-east Queensland retailer-distributors, and reviewed the regulatory framework for these entities in 2014. However, the Queensland Government is still considering the recommendations of that review (p. 175).

The reasons for this change were the cost and inefficiency of the review process and a lack of proportionality to the risk being addressed. The Commission also provides numerous examples of where economic regulation is not effective because of political intervention (see pp. 168-170). All of the examples are from large corporatized and economically regulated utilities with one from Queensland where

there is some evidence of pricing below lower bound levels in south-east Queensland (bulk water only) pricing policies applying to south-east Queensland's bulk water provider, Seqwater, and Tasmania's state-wide provider, TasWater, explicitly allow for underpricing at present (p. 166)

In this case, the presence of the QCA was insufficient to achieve cost-reflective pricing for even large corporatized and state-owned entities. This and the other examples contradict the Commission's view that:

Economic regulation also supports the separation of service delivery and government policy-making by ensuring that pricing processes are transparent and undertaken in accordance with the long-term interests of consumers (encompassing both cost and quality considerations), rather than being driven by, for example, a short-term desire to extract dividends or simply keep prices low for consumers (p. 171).

A similar result is reported for the QCA with respect to regulation of irrigation prices. Under the heading of “Transparency could be improved in Queensland” the report notes political constraints placed on the QCA and the need for:

Allowing the QCA to make its recommendations on prices based on the NWI Pricing Principles ...[to] ... make clear the costs and trade-offs of any ministerial decision to apply a different pricing structure.

In short, the review recommends reapplying an improved version of price regulation that has failed on several occasions in the recent past. **qldwater** does not have confidence that such a recommendation if implemented would lead to improvement despite the call for national guidelines or reduced political interference. In particular, a state economic regulatory regime needs to work in concert with and balance other core regulatory functions including health and environmental regulation to ensure priorities for investment are holistic and for broad community benefit. It should also contemplate other benefits that might be derived such as:

- ensuring consistent services in spite of variability in size and structure,
- competition through performance monitoring and benchmarking,
- state-wide customer communication and transparency,
- provide a foundation to remove risks of contracting-out, and
- ensuring capital investment oversight for publicly funded infrastructure.

Solution

If pricing regulation is to be implemented in an effective way, the Commission must recommend an approach that transcends the current faulty mechanisms and learn from overseas jurisdictions. Appropriate economic regulation of water and sewerage services is an important step in the maturity of the Queensland water sector but cannot be achieved with the ill-fitting and worn-out tools currently available. Without a more insightful approach that ensures stakeholder and expert involvement in developing regulations the recommendation is liable to do more harm than good as it currently stands.

Further, while good institutional and regulatory frameworks offer some protection against poor decisions, they are no guarantee. Ultimately, good outcomes require a consistent commitment from governments, service providers and regulators to good governance frameworks, robust and transparent decision-making processes, and avoiding the politicisation of decisions (p. 365).

Issue # 2: Competition by Comparison

The report does not recommend extending economic regulation to service providers with fewer than 10,000 connections because “it is not clear that the transaction costs of formal price regulation would be justified given the small size and large number of providers in these areas” (p. 176). Instead, Draft Recommendation 6.2 is:

To promote competition by comparison, Australian, State and Territory Governments should ensure that performance monitoring data are transparently reported for providers of all sizes and subject to independent scrutiny.

Priorities are:

- a) the Queensland Government extending the reporting of financial information to service providers with fewer than 10 000 connections*
- b) the New South Wales and Queensland Governments requiring appropriately qualified independent bodies to review financial performance frameworks to ensure that the pricing practices of regional service providers are monitored for consistency with National Water Initiative pricing principles*
- c) the Bureau of Meteorology, and the New South Wales and Queensland Governments, requiring providers to report a financial return metric that excludes developer charges and contributed assets alongside the economic real rate of return metric.*

Problem

qldwater supports transparent reporting of financial indicators and competition by comparison and has been working with the industry and the regulator on improving reporting for several years. The recommendation priorities appear to be based on incorrect analysis. In particular, the report finds that:

Performance reporting (or ‘benchmarking’) varies significantly between New South Wales and Queensland. While the New South Wales Government (2017b) reports on a comprehensive range of performance metrics across providers of all sizes, reporting in Queensland is not consistent or comprehensive. In particular:

- larger providers (with more than 10 000 connections) report on financial performance metrics, particularly the ERRR, through the Bureau of Meteorology’s National Performance Report (BOM 2017b), but smaller providers do not*
- providers report for a Queensland Government benchmarking exercise (DEWS (Qld) 2017), but the metrics used in this process often differ from those used in the National Performance Report, increasing the reporting effort for providers (p. 177)*

This is incorrect. **qldwater** manages the Statewide Water Information Management System (SWIM) on behalf of its members. SWIM consists of an annual data tool for compliance reporting to the state Department of Energy and Water Supply (DEWS), Bureau of Meteorology (National Performance Report and National Water Account) and Australian

Bureau of Statistics (ABS), along with operations and reporting tools supporting individual service providers in data management. Aside from the National Performance Report (NPR) for larger utilities, a voluntary State Benchmarking Report has been produced since 2010/11, and DEWS has commenced production of an Annual Performance Report with its introduction of mandatory Key Performance Indicators for all service providers from 2014/15.

Data collected since mandatory reporting commenced includes 20 financial indicators and eight of these match NPR indicators exactly. There are 12 unique indicators added to provide additional information (e.g. as well as reporting the NPR 'operational costs' metric, which includes maintenance, separate metrics on maintenance costs are also required). The definition used for ERRR is exactly the same as the NPR for larger providers (as is noted by the Commission) but for smaller providers the components that are used to calculate ERRR are collected instead. Although the accuracy of these figures may require further development for some small councils and for some indigenous councils that don't collect water and sewerage rates, it is not true that:

The industry and the Queensland Government both undertake performance reporting, though financial reporting is limited to larger providers (p. 362).

Furthermore, there is an established mechanism to improve all reporting (including financial) in future. This is because the reporting in Queensland has been streamlined into a single process (via SWIM) for several years (on a voluntary industry-funded basis) somewhat contrary to the Draft Report's statement that:

providers in Queensland already comply with multiple reporting requirements. Given the duplicative nature of existing processes, streamlining these into a single reporting process, similar to that undertaken in New South Wales, should have a minimal effect on costs.

The evolution of the voluntary process into a mandatory one over the past three years reflects the growing maturity of reporting in Queensland and there is a strong need to build on this progress to support greater development of competition by comparison.

Solution

Recognise the growing commitment of the Queensland sector to rigorous public reporting and competition by comparison which has been driven by the industry. This platform can be easily modified to collect the required financial information recommended in the report although some small councils may lack the capacity to extract these figures from general council financial data.

Issue # 3: Discontinuation of subsidies and increase of CSOs to needy communities

Under Recommendation 6.6, the draft report is in favour of:

discontinuing the existing practice of providing capital subsidies for urban water and sewerage infrastructure in regional New South Wales and Queensland. Consistent with the NWI, these should be replaced with CSO payments that target genuinely unviable

services. Given the significant quantum of existing subsidies and the principle that CSOs should be tightly targeted, this would be likely to reduce the overall quantum of funding these States provide to regional providers overall. It would also mean that high-cost and / or remote communities would receive more funding per resident than at present, while communities with less challenging operating environments would receive less (p. 205)

The overall aim of this approach is supported by **qldwater** in line with the work being done by LGAQ and the state government in reforming funding for water and sewerage. The format of the funding provided (i.e. as a subsidy, grant, or CSO) is less relevant than the criteria used to determine need and the transparency of the processes used and the ability to invest strategically beyond capital expenditure.

Problem:

The assumption that “this would be likely to reduce the overall quantum of funding these States provide to regional providers overall” seems to be at odds with the careful financial analysis undertaken by the Commission elsewhere in the report. Given the lack of definition of what constitutes an appropriate CSO, lack of data on real need and the completely arbitrary nature of current funding programs (which have declined significantly since the removal of guaranteed subsidies for capital projects in 2009) there is little evidence to support this assumption.

Solution:

Remove the assumption or provide evidence to support it.

Issue # 4 – Implementing the NPI

Recommendation 8.1 promotes the broad need to build knowledge and research at state and national levels while Recommendation 8.2 covers the need to provide ‘rapid adjustment support’ for communities in need.

Problem

qldwater strongly supports these recommendations, particularly the finding that:

In implementing structural adjustment assistance, governments need to recognise that regional communities are being shaped by factors other than, or in addition to, the availability of water and the resultant impact on irrigated agriculture. These factors include (but are not limited to) the long-term trend of productivity improvements in the agricultural sector (and associated consolidation of regional townships and centres) and the slowing of the mining investment boom (PC 2017). Accounting for such factors is more likely to deliver effective assistance strategies compared with a singular focus on the impact of water reform (p. 266).

However, it is not clear whether recommendation 8.2 applies only to communities affected by water supply changes for irrigation or more broadly to all communities affected by reform.

Solution

Clarify that all communities affected by reform should be supported on a case-by-case basis and that the costs of this support should be considered and factored into estimates of total reform costs prior to implementation.

Issue # 5 – Recommendations on updating the NWI.

qldwater supports the majority of recommendation 9 about how the NPI should be updated and in particular the findings that “the NWI needs to be renewed, not rewritten” (p. 273) and:

urban water provisions of the NWI should be enhanced in light of the pressures on urban water supplies as a result of population growth and increased urbanisation, climate change, and community expectations for improved amenity and liveability of cities. (p. 274)

Problem

The recommendation about urban water provisions should also recognise the impacts of the listed drivers and pressures on regional communities, particularly small and remote towns, aboriginal communities and those where population is static or decreasing. Further, **qldwater** strongly disagrees with the statement that:

As the vast majority of the expected benefits of water reform will accrue to the states and territories, it is generally not necessary (or efficient) to use Australian Government funds to increase the incentive for reform (p. 278).

The report itself describes the benefits of the NWI on GDP and productivity at a national scale suggesting that not all benefits accrue to individual states. The success of past elements of the NWI has relied in part on the incentives (including facilitation provided by the NWC for example) to drive change. If the benefits are as significant as the Draft Report suggests and they are only possible through incentivisation across all jurisdictions then the Commonwealth will be missing a key opportunity to derive return on investment to increase Australia’s productivity.

There are two reasons to suggest that incentives and targeted investment will be needed to drive further change under the NWI and both are raised on numerous occasions in the Draft report.

1. The fact that there is ‘unfinished business’ from previous iterations indicates that the needed changes are difficult or at least and unlikely to occur without further incentivisation.
2. The fact that the changes will increase productivity and benefit individual jurisdictions but are still not being implemented indicates reluctance possibly driven by hidden barriers related to externalities, market failures and transaction costs.

Both of these problems require a nationally consistent and incentivised approach to overcome the current inertia.

Issue # 6: In general, the report does not examine the political implications of local government-owned service providers.

Problem: For example, the issue of price setting by water utilities is considered in Chapter 6 with Table 6.5 summarising the range of situations around Australia and this table is a good example of where this complexity is brushed aside. The table notes that prices are set by water businesses in regional Queensland (and regional NSW). In reality prices are always set by council owners of water businesses and are subject to the same (or greater) political drivers as prices set by State-owned utilities.

Similarly, in Appendix B it is noted that previous reviews have found that:

the agreed separation of service delivery from government was largely complete across all jurisdictions by 2011 (NWC 2011d). The NWC did not assess progress again in 2014 (p. 375).

The report goes on to suggest that “service delivery remains separated from policy activities in all jurisdictions using corporatised service providers” (p 376). This statement clearly considers only large metropolitan service providers.

Solution: (1) Change table 6.5 to indicate local governments set prices and provide a note indicating that political drivers impacting price-setting also extend to the third tier of government but are beyond the scope of the review. (2) Update the analysis in the appendix to include regional NSW and Qld or make it clear the scope is limited to only metropolitan providers. (3) Clarify that governance by government service providers in the report considers only state and territory owned and managed operations and thus covers the majority of the population but is limited in analysing local government owned providers (and thus the majority of service providers in Australia).

4. Specific Comments

Issue # 7: In Chapter 2 it is implied that most urban service providers have achieved cost-reflective pricing:

Moves toward cost-reflective pricing have seen government subsidies reduce to the point where most of today’s urban and irrigation service providers are generating sufficient revenue from user charges to operate without a government subsidy. (p.43)

Urban and irrigation water services were heavily subsidised by governments prior to pricing reform commencing in the 1980s and 1990s. Since then, moves toward

cost-reflective pricing have seen government subsidies reduced to the point where most current service providers (in both the irrigation and urban sector) generate enough revenue from user charges to operate without a government subsidy. (p.53)

Problem: This does not accord with the later analysis (Chapter 6) of regional providers in NSW and Qld where it is clear that cost recovery is not universal.

Solution: Clarify that the statements refer to state-owned service providers or metropolitan service providers.

Issue # 8: In the Chapter 2 summary it is implied that arms-length separation of management and policy-making is universal:

the separation of water service provision from the policy-making functions of government has been achieved in all jurisdictions. This has delivered more cost-efficient water services and allowed governments to become more focused on policy making. (p. 43)

Problem: This is not accurate.

Solution: Clarify that this statement refers only to State-owned service providers.

Issue # 9: Chapter 3 discusses property right arrangements for alternative water sources and suggests that:

Simple arrangements may also be appropriate to support investments in wastewater recycling facilities in areas where the proportion of urban wastewater being recycled is low. However, to ensure that project proponents are able to negotiate reasonable access arrangements, there may be merit in introducing a legislated access regime, for example, as the New South Wales Government has done. (p.86)

Problem: While recognising that urban recycling is generally simple or too limited to require additional regulation, it is recommended that additional legislation be considered. **qldwater** believes that such legislation in Queensland (where the level of recycling regulation has alternated dramatically over the past decade) would act as a further barrier to recycling without providing significant benefits.

Solution: Remove the recommendation in the case of urban recycling or further specify exactly where and when additional legislation could provide a net benefit given local water security issues and optimal efficiency measures.

Issue # 10: Section 3.6 describes the need to recognise requirements of Indigenous people in water planning and management. **qldwater** strongly supports this need for the 15 aboriginal and 2 Torres Strait Island councils in Queensland all of which manage urban services.

Issue # 11: Examples of specific provisions for indigenous people are provided on page 95 including the following for Queensland:

in Queensland, unallocated water reserves (for the purposes of supporting economic opportunities for Aboriginal people and Torres Strait Islanders) are now located in the water plans for the Burnett, Fitzroy and Wet Tropics (p. 95)

Problem: The examples provided are not relevant for Torres Strait Islanders.

Solution: Remove the reference to Torres Strait Islanders or expand the example to be relevant to these communities as well as Aboriginal communities.

Issue # 12: Chapter 4 discusses the barriers to water trading between irrigators and urban service providers, for example:

Enabling unencumbered trade between irrigators and urban water utilities would provide large benefits to households and irrigators. But such trade is currently encumbered, mainly by governments directing utilities to use more costly supply options (p. 99).

...there must be no trade rules or other barriers preventing urban water utilities from purchasing water or moving it out of the source region. In addition, all urban water supply augmentation options need to be considered on their merits, with no implicit or explicit policy bans on options such as purchasing water entitlements or allocations (p 113).

Even so, it is appropriate for governments to take the potential for negative effects on regional communities into account. These should, however, be weighed up against the large benefits that can result from allowing trade between the irrigation and urban sectors. In the Commission's view, governments should allow trade and assist individuals and communities to adjust to the resulting change, rather than seek to preserve the status quo (p. 115).

qldwater agrees with the need to review barriers to water trading for urban service providers in Queensland recognising that existing entitlements and contracting arrangements make this complicated so that “potential negative effects on regional communities” must be carefully considered.

Issue # 13: Section 5.3 raises the long-standing need for greater integration of environmental water and waterway management.

The Commission’s view is that local organisations with clear roles and appropriate capability, working within a policy framework set by the State or Territory Government, and as part of a community-driven process, are best able to identify catchment-based environmental management objectives and priorities. This information can then inform State, Territory and Australian Government prioritisation processes to support statewide and nationally-relevant outcomes (p. 138).

qldwater supports this view from a Queensland perspective recognising that it would be a difficult and expensive reform process given current constraints and available funding. Local governments (and their urban service providers) would be important stakeholders in this process and the social and financial impacts on local communities should also be considered.

Issue # 14: The Chapter 6 summary suggests that:

The challenge for urban water management in the future is to provide efficient and affordable water and wastewater services for rapidly growing cities and towns, while also contributing to their liveability in a potentially drier climate.

Problem: As is highlighted latter in the report (see para 2 on p. 165), equally important challenges are managing ageing infrastructure in communities with zero or negative population change and how to modify services where demographic changes (e.g. density, urbanisation, ageing population, cyclical resource-sector changes) are important drivers.

Solution: Rephrase the sentence so that the emphasis is not solely on growing cities and towns.

Issue # 15: Table 6.2 summarises the Queensland industry structure as follows:

	Ownership	Bulk water	Bulk water and wastewater	Retailer-distributor (water and sewerage)	Vertically integrated (water and sewerage)	Water only	Sewerage only
Metropolitan (south-east) Qld	State	1					
	Local government			5			
Regional Qld	State	2					
	Local government				66		

Problem: The table has some errors.

Solution: Replace the figures highlighted below as follows:

	Ownership	Bulk water	Bulk water and wastewater	Retailer-distributor (water and sewerage)	Vertically integrated (water and sewerage)	Water only	Sewerage only
Metropolitan (south-east) Qld	State	1					
	Local government			5			
Regional Qld	State	3					
	Local government	2		2	63		1

- There are three state-owned bulk suppliers in regional Queensland, namely Sunwater, Mt Isa Water Board and Gladstone Area Water Board
- Regional service providers that receive treated bulk water from state-owned service providers include Gladstone Regional Council and Mt Isa Regional Council (although both councils also manage entire supplies for small satellite communities) while Sunwater provides all water services for the Northern Peninsula Area Regional Council and the council manages sewerage services.
- the remainder are 63 ‘vertically integrated’ council service providers (14 Aboriginal, 2 Torres Strait Island, 47 non-indigenous) though many source some or all bulk water from state-owned bulk providers.
- there are several councils that exchange (provide or receive) bulk water with other councils including Fitzroy River Water, Livingstone, Townsville, Burdekin, Goondiwindi, Torres and TSIRC.

Issue # 16: Table 6.3 summarises the progress with NWI recommendations including “Proposals for investment in new or refurbished water infrastructure will be assessed as economically viable and ecologically sustainable prior to it occurring” and finds that:

future investment decisions can be improved by clarifying supply augmentation planning arrangements and extending the use of independent economic regulation in some jurisdictions (p. 164).

Problem: The scope of the review appears to apply to all water and sewerage infrastructure, but the main focus appears to be limited to “supply augmentation”. However, the principles provided are fairly generic and relevant to all infrastructure investment which is much broader than supply augmentation.

Solution: Expand the sections that refer to infrastructure planning principles to be clear they apply to all capital investment (or alternatively explain the limitation of scope to supply augmentation).

Issue # 17: Section 6.5 (and Draft Recommendation 6.3) considers changes needed for better planning for growth including reform in “three main areas”:

- *Centralised supply augmentation planning decision-making processes need to be robust and recognise the linkages between centralised and decentralised supply options.*
- *Roles and responsibilities in supply augmentation planning need to be clear.*
- *Remaining policy barriers and distortions that may affect the uptake of decentralised ‘integrated water cycle management’ approaches need to be addressed.*

Problem: The analysis again appears to be limited to supply augmentation which although important, is only a small part of the total infrastructure investment needed in response to growth (particularly if IWCM is to be more strongly embraced). Sewage disposal and reuse is typically an afterthought in major development planning.

Solution: Expand the sections that refer to infrastructure planning for growth to be clear they apply to all capital investment (or alternatively explain the limitation of scope to supply augmentation).

Issue # 18: The report encourages greater adoption of Integrated Water Cycle Management (e.g. Draft Recommendation 6.4) which has been an aspirational goal for the sector for many years.

Problem: *qldwater* agrees with the need for greater support for IWCM and the PCs assessment that “ongoing efforts by industry to support collaboration and share good practice, rather than institutional change, will be critical to support future IWCM projects” (p. 186). However, the draft report does not put sufficient emphasis on the importance of environmental externalities in this issue. An example is provided by the analysis of stormwater management:

To the extent that naturalised channels or wetlands improve amenity for local ratepayers, it is logical for local governments to fund such projects and recover the costs from ratepayers (p.188).

While this statement is not incorrect at face value, it appears to overlook the fact that amenity for local ratepayers is seldom the driver for naturalised channels or wetlands which are typically pursued for the ecosystem goods and services they provide. The beneficiaries of these goods and services are seldom local ratepayers. It is typically very difficult to define which IWCM approaches are “cost effective”.

Solution: Emphasise the fact that for many IWCM issues the beneficiary will be future stakeholders (or the environment itself) and this issue substantially adds to the costs of collaboration and the affordability of IWCM so that further advice may be necessary on what constitutes a cost-effective approach.

Issue #19: The report recommends more emphasis be placed on outcomes focussed environmental regulation and in particular consideration when:

There are likely to be cheaper ways to achieve water quality outcomes than requiring utilities to undergo costly investments to meet tighter wastewater discharge standards (p.195).

and

Some regulatory regimes for WTP discharge standards and sewer overflows are poorly targeted and inflexible, and may not meet the standards of good regulatory practice (p. 197).

qldwater strongly agrees with these findings and there are recent examples of the interactions with the Queensland regulator adopting political rather than outcomes-based position in environmental regulation of the sector despite significant negotiation.

However, the statement that the management hierarchies adopted by many regulators:

do not appear to consider the actual costs and benefits of different disposal options, nor how those costs and benefits can vary between different cases (p. 196).

is not true for Queensland. Consideration of preferred management hierarchies allows a case-by-case assessment of different approaches despite the preferences given to reuse. Unfortunately though, this process can down-play the social and financial elements of environmentally sustainable development in favour of achieving ecological or water quality objectives. This is a key cause for inappropriate environmental regulation in Queensland (although it is being addressed in a more planned way by the regulator following policy reforms in recent years).

Issue # 20: The report uses the Queensland water quality offsets framework as an example of “more flexible and outcomes-focused regulation” (p. 198).

Problem: **qldwater** agrees on the importance of this regulatory approach and is working with the Environmental Regulator to update the Policy and make it more flexible as it is currently ineffective for most service providers. The example provided in the report: “Unitywater has implemented similar projects to reduce nutrients in the Maroochy and Caboolture Rivers” (p. 198) is a case in point. Implementation has been delayed partly due to constraints inherent in the policy and the Policy has not been adopted by other service providers for similar reasons.

Solution: Leave the paragraph about the Policy being innovative but check the example with Unitywater and explain that the regulator is actively working with the sector to explore ways to improve this policy and make it workable.

Issue# 21: The report notes that:

The Commission’s analysis in appendix B (section B.6) indicates that water quality issues are very likely to exist in parts of regional Queensland, though a lack of comprehensive reporting makes it difficult to assess the extent of the problem.

Problem: The reporting process for Queensland regional providers is in fact very comprehensive and includes:

- mandatory (and policed) incident reporting to the water quality regulator (and the Department of Health in some circumstances),
- annual reports on incidents and whether Drinking Water Quality Management Plans (DWQMPs) have been achieved,
- regular reviews and updates of DWQMPs,
- regular audits of DWQMPs.

Only annual reports are required to be published.

Solution: Change the report to indicate that the Commission was unable to access the comprehensive reporting undertaken by Queensland Service Providers because it is not summarised by the regulator.

Issue # 22: The review finds that “Government funding” (which appears to mean funding provided by the States to local governments) would be better targeted at areas of greater need. It notes that:

there is substantial informal evidence that this funding is not targeted to local governments with greater funding needs or service challenges. The Commission’s analysis indicates that about 60 per cent of water infrastructure funding under the Regional Capital Fund programs has been allocated to projects in larger local government areas such as the regions of Townsville, Cairns, Mackay, Rockhampton, Bundaberg, Hervey Bay and Gladstone, and in the metropolitan area served by Queensland Urban Utilities. These communities have significant resources to draw on and it is not clear why these projects would require State Government assistance (p. 203).

Problem: This finding clearly shows that many small communities may not be receiving assistance that is sorely needed. However, assuming that larger councils are not receiving funds for small communities is dangerous given the large number of very small supplies managed by the councils listed in the quote. Moreover, the suggestion that there are “significant resources” available to these councils appears to contradict the Commission’s recommendations against cross subsidisation. Although a large council that manages small (sometimes financially unsustainable urban supplies) may well have greater access to skills and access to economies of scale, it should not be expected to directly cross subsidise the small scheme using income from larger population centres. There are also constraints placed on large councils which can prevent appropriate cost-recovery. A good example is the State-imposed limit on infrastructure charges which can result in underfunding growth infrastructure. Another constraint (which is recognised by the Commission) is the proclivity for funding only capital and the perverse outcomes this has had on councils of all sizes.

Funding should provide for development of infrastructure strategies, plans and asset management potentially using the regional approaches being developed through the QWRAP.

Solution: Rephrase the paragraph and recognise the other constraints on local government service providers regardless of size.

Issue # 23: One reason the report provides for capital subsidies ‘distorting behaviour and creating problems’ is because they will:

drain scarce government resources away from services that are difficult or undesirable to fund through user charges (such as roads, public hospitals and public schools) towards water and sewerage services that are, in most cases, capable of being self-funded (p. 204).

It is difficult to know if this statement is correct, but it is likely to be misleading because in many communities, services are incapable of being self-funded. Similarly, the suggestion that:

If service provision is geographically fragmented, it may be more difficult to identify the best water supply and wastewater disposal options; while small providers can collaborate to build shared infrastructure, this is likely to be more complicated to coordinate across multiple providers than to deliver from within a single organisation (p. 206).

is misleading. The suggestion that it is ‘more difficult to identify best options’ is not necessarily true. What is always true is that the options will be in towns separated by a large distance meaning there is little opportunity for “shared infrastructure” and this has little to do with the size (or skills) of the organisation managing the problem

Problem: The scattered urban population across Queensland means there are over 370 public supplies, some up to 100 km apart, and 88% of which are potable. Two thirds of the potable services supply towns with fewer than 1000 residents. Half service fewer than 500 people. Sewerage services are present in fewer towns but are equally widespread geographically. For these small communities meeting modern standards and indivisibilities of factor inputs (particularly for water and sewage treatment) means that even the highest town rates would be insufficient of self-funding all services. Regional solutions may be beneficial but there is no chance of economies of scale in building shared infrastructure.

Solution: Rephrase the quoted paragraphs to better reflect the needs of regional communities and include a note in Table 6.6 to recognise that the overall size of a utility is often less important than the number of small isolated communities (or density) of the schemes they service.

Issue # 24: The review finds that although self-sufficiency of small regional councils is the ultimate aim,

there may be value in the relevant State Governments providing in-kind assistance to the joint programs through coordinating efforts, and by providing program management and planning expertise during the scoping and early implementation phases (p. 209).

Problem: The review neglects to mention that the Queensland government is doing exactly this through QWRAP (partly in response to earlier PC reviews).

Solution: Note the ongoing support for regionalisation by the Queensland State Government through QWRAP.