

Productivity Commission  
National Water Reform Inquiry

October 2017



Centroc's Mission is to be recognised as the lead organisation advocating on agreed regional positions and priorities for Central NSW whilst providing a forum for facilitating regional co-operation and sharing of knowledge, expertise and resources; effectively nurturing sustainable investment and infrastructure development.



17 October 2017

Reference jm:mm 171710  
Enquiries: Ms M Macpherson 0427451085

Dr Jane Doolan  
Commissioner  
National Water Reform Inquiry  
Productivity Commission  
GPO Box 1428  
Canberra City ACT 2601

Dear Dr Doolan,

**Re: National Water Reform – Draft Report – September 2017**

Thank you for the opportunity to comment on the Productivity Commission's Draft Report on National Water Reform and to address a public hearing of the Commission in Canberra on 16 October.

The security and supply of water for our region's communities is of the highest importance for Central NSW Councils. We valued the opportunity to have an open conversation with the Commissioners at the hearing about our priorities and issues for our member councils in managing water resources and delivering best practice, compliant and affordable Local Water Utility (LWU) services to central NSW communities.

Central NSW Councils (Centroc) represents over 200,000 people covering an area of more than 50, 000 sq kms comprising the Local Government Areas of Bathurst, Blayney, Cabonne, Cowra, Forbes, Hilltops, Lachlan, Lithgow, Oberon, Orange, Parkes, Upper Lachlan, Weddin, and Central Tablelands Water.

It is about the same size as Tasmania with half the population and a similar GDP.

Centroc's vision is to be recognised as vital to the sustainable future of NSW and Australia.

Its mission is to be recognised as the lead organisation advocating on agreed regional positions and priorities for Central NSW whilst providing a forum for facilitating regional cooperation and sharing of knowledge, expertise and resources.

Centroc has two core objectives:

1. Regional Sustainability - Encourage and nurture suitable investment and infrastructure development throughout the region and support members in their action to seek from Governments financial assistance, legislative and/or policy changes and additional resources required by the Region.
2. Regional Cooperation and Resource Sharing – Contribute to measurable improvement in the operational efficiency and effectiveness of Member Councils through facilitation of the sharing

of knowledge, expertise and resources and, where appropriate, the aggregation of demand and buying power.

The Centroc Board is made up of the 28 Mayors and General Managers of its member Councils who determine priority for the region. These priorities are then progressed via sponsoring Councils. For more advice on Centroc programming and priorities, please go to our website [www.centroc.com.au](http://www.centroc.com.au)

As detailed in our initial submission to this Inquiry (submission no 70), Centroc has undertaken extensive work on urban water security over the past decade completing the National award winning Centroc Water Security Study (CWSS) in 2009. This identified a range of water security solutions for the Central NSW region and resulted in the formation of the highly successful Centroc Water Utilities Alliance (CWUA).

Centroc has a high level of maturity in water resource planning and management and is a tireless advocate for water security for the region. The work of the CWUA demonstrates the efficiencies of co-operative partnerships in delivering the National Water Initiative (NWI) strategic agenda. Programming is innovative and focused on compliance based best practice service delivery to achieve optimal outcomes for communities.

## **Comments on the Draft National Water Reform Inquiry Report**

Firstly Centroc congratulates the Commission on their Draft Report which provides a solid and balanced analysis of what is a highly complex area across multiple jurisdictions. Acknowledgment that, while there is still work to be done, a lot has been achieved in the delivery of the National Water Initiative over the past decade is welcomed recognition for those of us working in the industry (Draft Finding 2.1).

With reference to its initial submission to this Inquiry Centroc prefaces its comments to specific draft recommendations provided in the table below with the following key messages and overarching commentary.

### **1. Centroc supports the ownership and management of LWUs by Local Government in regional NSW**

We strongly support the position outlined by Local Government NSW and the NSW Water Directorate in their submission summarised on page 207 of the Draft Report that:

*The integration of water supply and sewerage function and other general purpose functions allows councils to capture “economies of scope” ... (across) 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 controls with infrastructure intensive services such as water supply and sewerage services (submission 72, p 18)*

### **2. Centroc opposes any amalgamation or privatisation of LWU services in regional NSW.**

Centroc has long advocated against privatisation or amalgamation of LWUs in regional NSW due to the potential for loss of economies of scope and the impact on the quality and cost of service delivery posed by the geographical spread of communities.

As detailed in our initial submission Centroc cites international research on emerging trends towards new governance structures such as municipalities seeking to wrestle back control of their water supplies from the private sector.

The release today of the ACCCs National Electricity Market inquiry findings that electricity prices have risen by 60% compounds fears that any privatisation of LWUs in regional NSW would see similar cost increases for customers. This is of particular concern where the provision of safe quality drinking water is a basic human right critical to the growth and sustainability of our communities.

Currently pricing is determined by Councils in consultation with their communities through the Integrated Planning and Reporting regime where Centroc members are of the strongly held view that Councils are best able to determine pricing based on service levels agreed with their communities and their capacity to pay.

***3. Centroc strongly supports the collaborative Alliance model as a means of facilitating cost savings and efficiencies in the delivery of quality and affordable LWU services to communities.***

Centroc welcomes commentary in the Draft report regarding the Alliance model and in particular Draft recommendation 6.7 that:

*LWUs and State Governments in New South Wales and Queensland should strategically examine opportunities to improve service delivery through collaboration. Contingent Community Service Obligation payments may provide an opportunity to promote this collaboration.*

Centroc's previous submission articulates the benefits of its 14 member council's LWUs working in a regionally collaborative Alliance. These benefits were also discussed at the Productivity Commission workshop held in Sydney in July attended by the Chair of the CWUA Mr Andrew Francis. Subsequently the CWUA has undertaken analysis of the performance of the Alliance using the existing NSW Department of Primary Industry -Water (DPI) Performance Monitoring data to benchmark performance across some key metrics against other utilities in the state.

This analysis informed a presentation to the LGNSW Water Management Conference in Dubbo in September titled *Big Utility Thinking, Local Water Utility Values*.

While we know the Alliance model works in our region we wanted to provide evidence of this through analysis of the key metrics for performance both for an individual utility and an Alliance and to test the limits of the Alliance model as a potential model for NSW utilities to adopt.

Posing a number of questions that we believe need to be addressed by the CWUA to move into the future the first question we asked ourselves was: *Does the size of the utility matter?*

Using the DPI Water Performance Monitoring Data we compared the top 10 LG LWUs by number of connections with the bottom 10.

We then compared these to the State Medians where reported and against Sydney Water as a comparison against a very size conscious entity. We reviewed all 266 Business indicators and 68 Sewage

Treatment and 36 Water Treatment indicators used in NSW to measure performance to arrive at a list that can be used for a basic comparison.

While this analysis was coarse and based only on publicly available data, ultimately what we have found through comparison is that it is difficult to state the case for amalgamation for an entity such as Centroc with the performance of the CWUA LWUs consistent with the best performers in the state while operating under an Alliance model, without the need for capital transfer.

The CWUA continually strives to drive the performance bar for each LWU within the Alliance through a culture of best practice and on-going improvement. Our approach is to audit to understand the current status, identify the high risk easy tasks, continue to work on the high risk hard tasks and continually check the result to ensure that improvement is sustained.

Through performance monitoring analysis improvements can be seen in the reduction in water main breaks, sewer breaks and chokes and non-revenue water loss as well as an improvement in microbial compliance. Improvements reflect the key activities that the Alliance has been focussing on including water quality data comparisons, water treatment plant audits, Drinking Water Management System audits and work with the Operators across the region to pilot the National Certification for Water Treatment Plant operators.

The CWUA has undertaken shared procurement for regional programs to improve condition assessment techniques and rolling programs of sewer lining, manhole rehabilitation and water loss management. The improvements from this work across the Alliance LWUs can be demonstrated by the data. Details of this analysis and its findings are provided at appendix 1.

The Alliance model has been gaining worldwide acknowledgement particularly throughout Europe which, in the last decade, has seen an emerging trend towards new governance structures where municipalities seek to wrestle back control of their water supplies from the private sector.

The preparedness to respond to climate variability, changes to drinking water requirements, drinking water management plans, Health Based Targets, increasing effluent quality requirements and more will be more easily achieved for water utilities that are part of locally owned and operated Alliances. There is no “one size fits all”, however there is a strong case for the flexibility and agility provided in a Local Government owned and operated local water utility sector, built around strong collegiate Alliances.

Centroc welcomes the Productivity Commission’s draft findings and recommendations in support of Alliances though notes that the greatest challenge to the Alliance model lies in the ability of the auspicing organisation to enter into regional contracts on behalf of its members.

Centroc is currently a section 355 committee of Forbes Shire Council which means that while procurement processes can be undertaken at a regional level for shared programming, contracts for higher risk operational activities such as asset maintenance must be signed by individual participating Councils negating some of the efficiencies gained through working collaboratively. Having said this Centroc still achieves economies for its members through program management, co-ordination of milk-runs for contract delivery and other project management tasks that reduce the costs for its members.

For non-risk planning activities such as a regional program to develop Strategic Business Plans or to audit performance monitoring data a single regional contract can be entered into by Forbes Shire Council on behalf of Centroc with the provider. This enables good economies

Throughout the NSW Government *Fit for the Future* initiative to reform Local Government, Centroc as a Pilot Joint Organisation, has supported institutional models to enable a ROC or Joint Organisation to procure on behalf of its members to better enable the collaborative work of its Alliance.

As discussed at the Productivity Commission hearing in Canberra on 16 October, while work progresses to quantify savings achieved for members LWUs through the CWUA, since its inception in 2009 the CWUA has collectively saved its members in excess of \$700k in regional procurement alone which ultimately benefits customers. In addition to this is more than \$3.2 M in grant funding for regional projects secured and co-ordinated through Centroc.



CWUA Workshop in Water Loss Management

In the following table Centroc provides comment on specific draft recommendations.

| Productivity Commission Draft Recommendations   | Centroc comments   |
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| <p><b>DRAFT RECOMMENDATION 3.1</b></p> <p>State and Territory Governments should ensure that entitlement and planning reforms are maintained and improved. Priorities are:</p> <p>b. State and Territory Governments should ensure that water entitlement and planning arrangements explicitly incorporate extractive industries, such as by ensuring entitlements for extractive industries are issued under the same framework that applies to other consumptive users unless there is a compelling reason otherwise</p> <p>c. State and Territory Governments should develop a process to regularly assess the impact of climate change on water resources. Where this is considered to have been significant and detrimental, they should ensure that the next water plan review fundamentally reassesses the objectives of the plan (including environmental and consumptive) and the consequent balance between environmental and consumptive use of water, to ensure it is suited to a drier climate</p> <p>d. State and Territory Governments should ensure that, as water plans reach the end of their planning cycle, suitable review processes are undertaken that allow optimisation of water use and system operation across all users, include explicit consideration of Indigenous cultural values and involve adequate community and stakeholder engagement</p> <p>e. State and Territory Governments should ensure that their entitlement frameworks can incorporate alternative water sources, such as stormwater, wastewater, and managed aquifer recharge, so they do not present a barrier to efficient investment in these supply options. Australian, State and Territory Governments should revise relevant provisions in the National Water Initiative to align with recommendations 3.1(b) to 3.1(e).</p> | <p><b>3.1 b.</b> A key objective of Centroc is to encourage and nurture sustainable economic growth for the region with two key sectors, agriculture and mining, both heavily reliant on reliable water supplies.</p> <p>The Central NSW region has a strong mining industry. Currently mining contributes \$2.1 billion to the region’s economy and accounts for 21.9% of the Central NSW region’s GRP which is significantly higher than the NSW average of 3.1%.</p> <p>In the Infrastructure Australia audit 2015 the Central NSW region is slated to be in the top 7 in the nation with an estimated \$17.4 billion in gross regional product by 2031.</p> <p>A significant mine development proposed for the Central NSW region contingent on access to water is the <b>McPhillamys Gold Project</b>, located at Kings Plain near Blayney is owned by Regis Resources Ltd, an Australian gold production and exploration company. This project is currently awaiting a final investment decision for the construction phase. A key concern for the development of this mine is access to water.</p> <p>While there is no specific Board policy on water entitlements and planning arrangements in relation to extractive industries, Centroc supports a catchment wide approach to regional water planning that takes into consideration water supply and demand options for the Local Water Utilities (LWUs) and ensures an appropriate balance is struck between the needs of towns, agriculture, mining and the environment.</p> <p><b>3.1c.</b> Centroc has done extensive work on urban water security with the National award winning 2009 Centroc Water Security Study (CWSS) identifying a range of water security solutions.</p> <p>Centroc has long advocated to the State Government for a review of the CWSS with DPI Water, WaterNSW and other key stakeholders at the table. This is seen as essential as changes in model outputs in recent years attempt to accurately reflect the impacts of climate change on catchment yields which could result in</p> |



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|  | <p>significantly less secure water supplies than the original report.</p> <p>Key to a review of the CWSS and the development of Integrated Water Cycle Management Plans required under DPI Water’s Best Practice Management Framework for Water and Sewer is the modelling to determine secure yield-based on how the climate change impacts have affected secure yield assessments.</p> <p>DPI Water has been working in this regard for some time and it is understood that draft <i>Guidelines on Assuring Future Urban Water Security</i> are available for use but have not yet been formally adopted.</p> <p>With more extremes in climate predicted there is a need to ensure a more up-to-date understanding of risks to town water supplies. Centroc welcomes this recommendation.</p> <p><b>3.1d.</b> Centroc supports this recommendation advocating for a more holistic approach to regional water planning with urban water a key focus.</p> <p>Centroc has long advocated to work in collaboration with other levels of Government to optimise and share knowledge of the region’s water needs from a social, economic and environmental perspective.</p> <p>As the NSW Government Roadmap proposes a triple – bottom-line approach to the Murray Darling Basin Plan which puts local communities first, the elected representatives are the voice of their communities and well placed to ensure their communities’ needs are considered in any review of water resource planning.</p> <p>Centroc welcomes the Commission’s findings that:</p> <ul style="list-style-type: none"><li>• Identification of socio-economic impacts of environmental water recovery on regional communities and associated structural adjustment needs is a key area of water resource planning and management that requires further progress;</li><li>• To ensure communities understand the need for change and the challenges involved, this process needs to be built on genuine engagement with affected communities; and</li><li>• Critically, addressing socio-economic impacts is a whole-of-government task that cannot solely be performed by bodies such as the Murray-Darling Basin Authority.</li></ul> |
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|   | <p><b>3.1e.</b> Centroc Councils are recognised for their innovative approaches to alternate water sources and savings measures including Stormwater Harvesting and the investigation of Managed Aquifer Re-charge. We welcome this recommendation to incorporate alternate water sources into the water entitlement process.</p>  |
| <p><b>DRAFT RECOMMENDATION 6.2</b></p> <p>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:</p> <p>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</p> | <p>As demonstrated through projects to audit and analyse key metrics for performance both for an individual utility and an Alliance, the CWUA values transparently reported performance monitoring data to monitor and drive performance improvements and enable benchmarking. Currently there are 266 Business indicators and 68 Sewage Treatment and 36 Water Treatment indicators used in NSW to measure performance.</p> <p>In its February 2016 response to IPART’s Local Government Regulatory Burdens Review Draft Report – January 2016 Centroc made the following comments and recommendations;</p> <p><i>The Centroc Board are not opposed to regulation of the water and sewer sector to ensure a high level of service delivery to its communities. We are concerned, however, to ensure that the current issues with the management of the Best Practice Compliance Framework are addressed in collaboration with Local Government and in a way that sees alignment of Local and State Government priorities with our communities interests at the heart.</i></p> <p><i>It recommended that DPI Water amend the Best-Practice Management of Water Supply and Sewerage Guidelines to:</i></p> <ul style="list-style-type: none"> <li>- <i>streamline the NSW Performance Monitoring System to ensure each performance measure reported is:</i> <ul style="list-style-type: none"> <li>• <i>linked to a clear regulatory objective;</i></li> <li>• <i>used by either most Local Water Utilities (LWUs) or DPI Water for compliance or meaningful comparative purposes;</i></li> <li>• <i>not in excess of the performance measures required under the National Water Initiative; and</i></li> <li>• <i>not duplicating information reported to other State agencies</i></li> </ul> </li> <li>- <i>reduce the number of performance measures and/or the frequency of reporting for small LWUs with fewer than 10,000 connections</i></li> </ul> <p><b>6.2 b-</b> There are varying views across our membership in relation to the draft recommendation to require independent bodies to review financial performance reporting frameworks for providers in regional NSW to</p> |

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|   | <p>ensure pricing practices are transparent and consistent with National Water Initiative pricing principles.</p> <p>Some see this as a good idea but others see it ultimately as a threat to their ability to set prices where the Council through its IP&amp;R processes is best able to negotiate prices in discussion with their communities based on service levels agreed with their communities and capacity to pay.</p> <p>They agree with the view that:<br/> <i>smaller regional utilities are better placed to provide price signals in form of prices reflective of the cost of a particular supply source and network. This will also provide affordability signals for decision makers to consult on with the community/customers and or consider the need for government funding support.</i></p> <p><i>Developer charges provide an economically efficient and equitable funding mechanism for the delivery of public infrastructure required as a result of new development.</i></p>  |
| <p><b>DRAFT RECOMMENDATION 6.3</b></p> <p>State and Territory Governments should:</p> <p>a. ensure that roles and responsibilities for supply augmentation planning are clearly allocated between governments and utilities</p> <p>b. require that decision making processes are consistent with good planning principles, in particular that they consider all options fully and transparently, including both centralised and decentralised approaches (including indirect and direct potable reuse, and reuse of stormwater), and are adaptive in response to new information.</p> <p>Australian, State and Territory Governments should enhance the National Water Initiative to align with recommendation 6.3 (b).</p> | <p><b>6.3 a.</b> Centroc advocates that compounding the need for a catchment wide analysis of water resources (see response to 3.1 d.) is that currently there would appear to be a number of planning processes with legislative requirements for water across multiple agencies including, at the State level, DPI Water, the Natural Resource Commission and Water NSW and for this region, the Murray Darling Basin Authority at the Federal level. The current water resource planning processes are confusing and not integrated.</p> <p>Centroc is advocating to work in partnership with Government to co-design a regional water planning framework that takes into consideration water supply and demand options for the Local Water Utilities (LWUs) across the catchment as a whole and most importantly that aligns Local, Regional, State and Federal planning processes.</p> <p><b>6.3b.</b> Centroc member Councils have worked collaboratively for many years on water security solutions at a regional level and have extensive knowledge of water resources and security of supplies in the Central NSW region.</p> |

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|  | <p><i>Centroc has made recommendations to the NSW Government previously that there is a need to review and co-design the strategic framework for regional water planning with LG involved at the decision making level to reflect the need for better alignment and integration on a catchment basis then give consideration to the fit of IWCM.</i></p> <p>Centroc continues to advocate to the NSW Government to be part of evaluations and the decision making processes relating to priority water infrastructure funding in the Central NSW region where they impact on the water security of the region, particularly of its urban centres.</p> |
| <p><b>DRAFT RECOMMENDATION 6.4</b></p> <p>State and Territory Governments should ensure that decentralised integrated water cycle management (IWCM) approaches are considered on an equal footing alongside other water supply and management approaches, particularly in the planning of new developments to support growth. Priorities are:</p> <ul style="list-style-type: none"> <li>a. ensuring that place based IWCM plans are developed for major growth corridors and significant infill development locations</li> <li>b. ensuring that options identified in IWCM plans are considered in water system planning, including both high level system wide planning and detailed investment planning, and in land use planning</li> <li>c. ensuring that IWCM projects are implemented when they are shown to be cost effective (considering their full range of benefits)</li> <li>d. reviewing the role that developer charges play in planning for new developments.</li> </ul> <p>Australian, State and Territory Governments should enhance the National Water Initiative to align with recommendations 6.4 (a) to 6.4 (d).</p> | <p>In its February 2016 response to IPART’s Local Government Regulatory Burdens Review Draft Report – Centroc recommended a review and co-design of the strategic framework for regional water planning in NSW with LG involved at the decision making level to reflect the need for better alignment and integration on a catchment basis and consideration of the fit of IWCM at the local level.</p>   |
| <p><b>DRAFT RECOMMENDATION 6.6</b></p> <p>To improve service efficiency and address remaining water quality issues, funding arrangements for local water utilities in regional New South Wales and regional Queensland should be significantly reformed. These States should replace existing capital grants to water utilities with Community Service Obligation payments that are not tied to capital expenditure, and are tightly targeted at unviable (high cost) regional and remote services.</p>  | <p>The provision of safe secure water is a basic human right and subject to ever increasing standards – the proposed introductions of Health Based Targets into the Australian Drinking Water Guidelines and the implications of this for water infrastructure in rural and regional areas being a case in point.</p> <p>Currently the funding framework in NSW is in line with the NSW Treasury’s benefit cost ratio (BCR) requirements which are driven by population and the economy. Infrastructure projects that meet NSW Treasury’s BCR requirements tend to get funded in locations where</p>  |

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|  | <p>there is a higher population base, such as Western Sydney.</p> <p>Water infrastructure projects in a regional community when assessed against the Treasury funding framework will never achieve a BCR of 1 required to meet funding criteria as the population they serve is relatively small. Take, for example a water treatment plant in a western NSW town with a population of under 2000.</p> <p>In our view, the funding framework is not optimised as it is not developed with Local Government or with an understanding of its variable capacity.</p> <p>Further to this, induced demand is not adequately considered in the funding framework which ultimately leads to more of the same as a result of ‘progress informed by looking backwards.’</p> <p>Councils have the ability to deliver projects though experience constraints especially where they need to spend significant money making the case for investment from State funding programs under the current Treasury Guidelines.</p> <p>While Regional support and collaboration helps manage some of the constraints particularly of smaller less well-resourced Councils, as a general rule Councils are limited in increasing sustainable revenue in regional areas given the:</p> <ul style="list-style-type: none"> <li>- rate cap</li> <li>- jobs they are being given by other levels of government</li> <li>- the tasks for LG in regional NSW – swimming pools, airports</li> </ul> <p>Councils currently are expending a significant portion of revenue on renewal expenditure on ageing infrastructure e.g .pools, water and sewer. Compounding this is that negotiating Special Rate Variations are tortuous and some members are saying they are getting to the end of their ability to match funding.</p> <p>The question to be asked is if the dollars to resource competitive funding were added up, what is the net benefit, especially in the smaller programs?<br/>Given this Centroc has previously advocated for rural region dedicated funding and programs that recognise the role of Local Government in regional Australia.</p> <p>Given that delivery of safe and secure drinking water is not a discretionary activity the proposal to improve the</p> |
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|   | <p>efficiency and quality of service provision in regional NSW by targeting government funding/subsidies to providers with greater needs or service challenges, including through community service obligation payments is an interesting idea worthy of more detailed consideration.</p> <p>Centroc strongly advocates that to make any long term structural changes to the funding framework the NSW Government needs to engage with Local Government in regional NSW on co-designed solutions.</p>   |
| <p><b>DRAFT RECOMMENDATION 6.7</b></p> <p>Local water utilities and State Governments in New South Wales and Queensland should strategically examine opportunities to improve service delivery through collaboration. Contingent Community Service Obligation payments may provide an opportunity to promote this collaboration.</p>  | <p>As detailed above, Centroc strongly support the Alliance model and welcome this recommendation.</p> <p>Key to the success of the CWUA is its willingness to share knowledge and resources and to mentor in order to build the capacity of its members. The CWUA is always eager to engage in any strategic discussions about the role an Alliance can play in improving service delivery through collaboration.</p> <p>We welcome the opportunity to be involved in any discussions regarding the Alliance model and the potential for contingent CSO payments to promote collaboration.</p> |
| <p><b>DRAFT FINDING 8.2</b></p> <p>State and Territory Governments have delivered improved decision-making through open and timely consultation with stakeholders on water planning. This has been supported by the publication of relevant supporting information for consultation at key decision points. State and Territory Governments have taken steps to document the outcomes from water plans and whether plan objectives have been achieved. The Murray Darling Basin Authority has increased stakeholder consultation and engagement since 2011.</p> | <p>Progress in gaining representation by Local Government in the Central NSW region on the Stakeholder Advisory Panel (SAP) for the development of Water Resource Plans has been slow.</p> <p>While there is willingness by the Government to engage Local Government in Water Resource Planning process the challenge now is to ensure that risks to the security and reliability of town water supplies are identified in the planning process.</p>   |

In conclusion, Central NSW Councils thank the Productivity Commission for the opportunity to provide comment to this Draft Report on National Water Reform. In particular we welcome draft recommendations that:

- support the merits of the collaborative Alliance as a potential model for service delivery improvements in regional areas; and

- improve water resource planning frameworks to ensure greater alignment between Local, Regional, State and Federal planning processes enabling a more holistic catchment wide approach to meet local needs.

We welcome recommendations to review funding arrangements for regional local water utilities where Centroc is of the view that the current funding framework in NSW is not optimised as it is not developed with Local Government or with an understanding of its variable capacity.

In relation to proposed reform of pricing practices we reiterate the view that smaller regional utilities are better placed to provide price signals in form of prices reflective of the cost of a particular supply source and network. This also provides affordability signals for decision makers to consult on with the community/customers and or consider the need for government funding support.

If you require further information or clarification on comments in this submission please contact Ms Meredith Macpherson, Program Manager, Centroc Water Utilities Alliance

Yours sincerely,

Jenny Bennett  
**Executive Officer**  
Central NSW Councils (Centroc)

## APPENDIX 1.

### ***Big Utility Thinking, Local Water Utility Values***

While we know the Alliance model works in our region we wanted to provide evidence of this through analysis of the key metrics for performance both for an individual utility and an Alliance and to test the limits of the Alliance model as a potential model for NSW utilities to adopt.

In doing this we looked at the State of play in NSW and determined that we needed to take a hard look at ourselves.

Posing a number of questions that we believe need to be addressed by the CWUA to move into the future the first question we asked ourselves was: *Does the size of the utility matter?*

Using the DPI Water Performance Monitoring Data we compared the top 10 LG LWUs by number of connections with the bottom 10.

We then compared these to the State Medians where reported and against Sydney Water as a comparison against a very size conscious entity. We reviewed all 266 Business indicators and 68 Sewage Treatment and 36 Water Treatment indicators used in NSW to measure performance to arrive at a list that can be used for a basic comparison.

While these metrics on their own don't represent necessarily the key ones for an individual utility they are useful for the purposes of benchmarking.

#### **What we have found is that:**

- The Top 10 LWUs are dominated by coastal utilities with fairly consistent supply needs
- These align well with the State median
- The Bottom 10, however have high variance, much higher median and are dominated by inland and western LWU's
- For these climate is the main driving factor and potentially security of supply
- Sewer collection rates are fairly consistent, further reinforcing that the additional water usage for the bottom 10 is driven by external use
- Asset metrics are as to be expected, longer lengths of pipe for larger utilities and higher density of connections per unit length
- This further reinforces the geographical challenges of sparse populations in smaller western utilities
- Interestingly, sewer condition is similar across both, whereas water favours the larger utilities
- And while variance is high, Non-Revenue Water is fairly consistent right up to Sydney Water Corporation showing no correlation to size
- Sewage treatment to a tertiary level is an anomaly for the bottom 10 as only one utility reported treatment to a tertiary level at 47%, all others reported 100% secondary, still a better result than Sydney Water



- Water quality management still requires some attention at the lower end, although across the state, only 3 utilities reported less than 100% microbial compliance across the population, with 2 of those in the bottom 10
- The financial statistics are telling, operating cost is 2.5 times higher for the bottom 10 for water but again very consistent for sewer
- This similar theme for water supply flows through this data, again, reinforcing that geography is the challenge for the smaller, inland utilities
- Here the size that matters is the area covered and lack of density per unit length to pay for it
- Capital expenditure requirements are, however, consistent
- As well as having similar cost recovery performance, the combined Typical Residential Bills have almost no discernible difference
- With the higher sewer TRB for the larger utilities balancing the lower TRB for water and vice versa
- The key difference here is the operation cost to TRB ratio, with little difference for the smaller utilities compared to the per property difference for the larger utilities
- This makes it difficult for the smaller utilities to generate the required capital long-term
- Other factors affect this of course and weren't looked at for this due to a lack of available data, such as developer charges, non-residential rates and the normalisation of the TRB figures to a single consumption comparison
- The TRB figures for the inland and thus higher consuming per property utilities are skewed by the TRB calculation by average water use. Normalising all utilities to a single figure would give a better comparison

### **Why do this?**

These metrics and the other 350 data points reported to DPI each year are what we are and will be judged on. They need to be taken seriously and need to demonstrate improvement year on year. More specifically the critical ones should drive the behaviours or lead metrics that generate high performance

What is this telling us is that despite all the other metrics; despite high performance across the sector in all areas, at the end, we will be judged by two things:

- Water Quality Management and
- Ability to generate or access capital

### **How does the performance of CWUA member Councils compare for the same set of metrics?**

Based on the 2015-16 reporting year, the Alliance undertook an audit of each of its member utilities under both the DPI Audit framework and the NWI framework. Only two utilities in the Alliance are required to be audited for the NWI, however we did this for all members. This process has provided invaluable feedback on the efficacy of the numbers for member Council's within the DPI data set:

- There was some variance in interpretation of descriptors, this will allow us to get alignment,

there was variance in the accuracy and precision of responses, again an improvement project for the Alliance

- Critically, it meant we could rely on the data for detailed analysis
- Once we had this, we drew a system boundary around the Centroc Council region and aggregated the metrics or developed appropriate weighted averages for the key indicators, then compared these against ourselves as well as the previous table developed looking at the top and bottom 10 performers.
- Critically, two of our utilities are in the bottom 10 by size shown previously, and none are in the top 10

#### **We developed another table to show the aggregated performance of the Alliance**

- On a number of connections basis, this puts the Alliance at 2nd largest in the State- we have approximately 75,000 water connections
- Water supplier is highly variable
- Sewer consistent
- Non Revenue Waterloss has been identified as a key issue and confirms the emphasis we have placed on this over the last 3 years, particular with the development of a Water Loss toolkit for members, with further work progressing (incidentally this has been distributed to all councils in NSW through a partnership with the NSW Water Directorate).
- Operating costs are consistent with other areas
- The skewed capital result is due to \$70M expenditure by one of our members, Parkes Shire Council, over a short period, this value comes down to \$434 without that single figure included
- TRB's and capital are consistent

#### **How do we compare?**

- Consistent with previous results, the inland skew leads to higher water consumption and similar sewer collection rates
- Again, densities of connections are much lower for water and similar for sewer, implying sparser populations and remote water sources
- Asset maintenance is probably a key difference especially as noted earlier with NRW losses
- Environmental indicators and human health are all positive
- Financial indicators are very positive
- Operational cost for water is higher as expected and Sewer is lower
- The capital spend per property is consistent, noting the skewed data for Centroc discussed earlier
- And the combined assessments are virtually the same

- In fact, in an attempt to normalise the data, (if we assume that the median TRB of 597 is based on a residential supply of 153 and normalise this data at 250kL/a) the actual cost of water is considerably lower within the Centroc group, with a figure of \$999 attributable to the top 10.
- In fact, the combined TRB is then highly favourable to the Centroc data
- The other key similarity is the TRB to OMA cost comparison, the ability to generate capital, although a coarse comparison, is there none the less
- With this comparison, though coarse as it is without access to additional data, it is difficult to state the case for amalgamation for an entity such as Centroc
- The numbers for the Alliance are consistent with the best performers in the state while operating under an Alliance model, without the need for Capital transfer

### **Finally, how do we compare against ourselves**

We continually strive to push the performance bar for each LWU within the Alliance and foster a culture of continual improvement

- our approach is the quintessential PDCA, audit to understand current state, identify the high risk, easy tasks, continue to work on the high risk hard tasks and continually check the result to ensure that improvement is sustained
- The 2011-12 data has to be taken with a grain of salt, there have been amalgamations and changes of membership over that period, as well as some utilities still on restrictions following the breaking of the drought and usage patterns by the communities still reflecting those of the drought period
- The financial data was much harder to obtain and work with and will be progressed at a later date
- The key figures here from an improvement perspective are the reduction in water main breaks, sewer breaks and chokes and NRW as well as an improvement in microbial compliance
- These are the key activities that the Alliance has been focussing on with water quality data comparisons, water treatment plant audits, DWMS audits and working with the Operators across the region to pilot the National Certification for WTP operators

The other key big ticket activities have been improvement in condition assessment techniques and rolling programs of sewer lining, manhole rehab and water loss management activities, all of which can be demonstrated by the data