

Our ref: R90/1056-12 Out-
Further contact: Mark Hely

17 April 2018

Mr Philip Davies
Chief Executive Officer
Infrastructure Australia
GPO Box 5417
SYDNEY NSW 2001

Dear Mr Davies

Reforming Urban Water – A National Pathway for Change

I am writing to provide you with feedback on Infrastructure Australia's December 2017 report, *Reforming Urban Water – A National Pathway for Change*.

While I appreciate there is no formal submission process for responding to the report, Local Government NSW (LGNSW) believes it is essential to draw to your attention a number of concerns LGNSW and our member councils have about the report's benchmarking assessment of NSW Local Water Utilities (LWUs) and its ultimate stated aim of privatising urban water assets.

In the first instance, we do not agree with Infrastructure Australia's broad assertions that "...regulatory standards ... (for regional urban areas) ... often fall well below those in metropolitan areas..." and that "...governance, planning and institutional arrangements in regional areas have fallen behind metropolitan areas".

There are 89 council owned and operated LWUs in NSW providing services to more than 1.8 million people, generating over \$1.5 billion in annual revenue, and holding total water supply and sewerage assets valued at around \$28 billion.

These LWUs operate under a comprehensive regime of health, environmental and economic regulation within a stringent performance measurement framework, outlined in the Department of Industry – Water's *Best Practice Management of Water Supply and Sewerage Framework* ("best practice framework"). As a result, LWUs have been successful in delivering water supply and sewerage services to their communities in a safe, secure, efficient and affordable manner.

The implementation of the best practice framework, and the related achievements in the provision of urban water services, have been largely the result of the reform blueprint provided by the *National Competition Policy (1995)* and the *National Water Initiative*.

Under the best practice framework, NSW regional and rural councils have:

- established their LWUs as business units, separate from their general purpose activities;
- put in place long term, strategic business planning, integrated water cycle management, asset management and financial planning by their LWUs;
- implemented efficient, consumption based and cost reflective water pricing;

- made significant progress towards meeting drinking water quality standards and implementing drinking water quality risk management frameworks under the *Australian Drinking Water Guidelines (2011)* (ADWG);
- managed the water cycle in an integrated way and deliver water sensitive urban design by coordinating their water supply, sewerage, stormwater management and land use planning functions;
- pursued institutional reform and have established regional alliances of LWUs to share resources, undertake regional water resource planning, and deliver regional water supply infrastructure; and
- worked in partnership with the NSW Government to identify and provide funding for urban water infrastructure investment in areas of need, i.e. where required service levels would have been unaffordable otherwise.

Infrastructure Australia's report is also unjustifiably critical of the regulatory framework applying to LWUs in NSW and of the scope and quality of their publicly available performance information. The report infers that, in the absence of independent regulation by the Independent Pricing and Regulatory Tribunal (IPART), LWUs are subject to minimal and inconsistent oversight. It suggests that reporting on financial performance is opaque, making it impossible to accurately determine whether full cost recovery is being achieved and goes so far as to state that "... reporting on financial performance may be inappropriately conducted".

LGNSW contends that NSW LWUs are subject to extensive oversight and monitoring by the Department of Industry – Water, which transparently reports, on an annual basis, extensive LWU performance and benchmarking information. They are also required to prepare their annual financial information in accordance with the Australian Accounting Standards and the NSW Office of Local Government's Code of Accounting Practice. This financial information is subject to independent external audit and is published as part of each LWUs' annual report.

One area where LGNSW is in strong agreement with Infrastructure Australia is the need for services to focus on the long-term interests of users and the importance of effective community engagement to identify and plan for these interests. As the report notes "... services should be delivered to a standard that reflects what customers want and need, at a cost they are prepared to pay..." and that "... acting in the best interests of users requires an understanding of their needs and expectations ... (and these) ... will vary between and within communities and will change over time".

Without a doubt, local councils are uniquely placed to perform these roles. They are the level of government closest to the community and they are answerable and accountable to their community. Furthermore, the Integrated Planning and Reporting Framework, which now underpins the *Local Government Act 1993*, embeds strong community engagement with long term planning in council decision-making.

LGNSW and its members strongly believe that councils are therefore best placed to continue to deliver efficient, responsive and sustainable urban water services in regional NSW and service provision should remain in council hands. Councils ensure an integrated and locally appropriate approach to water supply and sewerage management and optimal whole-of-community outcomes. Regional alliances of LWUs allow them to capture scale efficiencies and the benefits of regional solutions without having the disadvantages of institutional settings where water supply and sewerage functions are removed from councils.

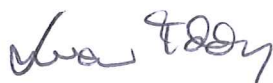
This does not mean we are opposed to reform. Quite the contrary. LGNSW, councils, Department of Industry - Water and NSW Health have been working together to identify, and are addressing, a number of challenges and reform priorities. These include:

- modernising the regulatory framework towards more outcome and risk based regulation that recognises the maturity of LWUs;
- implementation of microbial health based targets for drinking water supplies and addressing associated funding needs;
- water security and climate change impacts; and
- addressing concerns over private sector involvement and competition.

In conclusion, LGNSW believes there is significant scope for a renewed *National Water Initiative* to contribute to addressing these challenges by providing high level policy guidance, independent evidence-based resources, and promoting rigorous cost-benefit analysis of regulatory changes. They do not, however, require a change in ownership.

For further information on this issue, please ask your staff to contact Mark Hely, Senior Policy Officer on 9242 4045 or mark.hely@lgnsw.org.au.

Yours sincerely

A handwritten signature in purple ink, appearing to read 'Lillian Tiddy'.

Lillian Tiddy
Acting Chief Executive