

# DCCEEW Water Response: Supplementary Questions

## Response to the Joint Select Committee on Protecting Local Water Utilities from Privatisation

### Supplementary Questions: DCCEEW Water

#### 1. What is the estimated total infrastructure backlog cost for all local water utilities in NSW?

DCCEEW Water does not maintain a full list of local water utilities infrastructure assets, this is the responsibility of each local water utility/council.

However, the Safe and Secure Water Program (SSWP) provides funding for water security, water quality and environmental infrastructure solutions by addressing key risks across regional NSW. Each risk is ranked based on a prioritisation assessment.

In 2022, the Program estimated that to address the 540 priority risks detailed in the Safe & Secure Water Program, the asset replacement cost ~\$4.83 billion (real \$ 2022). It should be noted that the SSWP will have invested \$1 billion by 2028 with council's investing up to twice this amount.

#### 2. Given there are currently no minimum training requirements for water operators, is periodic verification of the capability of operations staff required and enforced, particularly for activities that have a significant impact on drinking water quality?

There are very few formal training or competency verification requirements for water operations. However, many water operations staff have received some formal water operations training from either the department or a registered training organisation. The *Public Health Act 2010* and Regulation require that drinking water suppliers consider the skills and training needs of their staff, but this is not externally assessed. The *Fluoridation of Public Water Supplies Act 1957* and Regulation require specific training to operate a water fluoridation plant.

The department is currently working with the sector to develop a comprehensive competency framework for water operations, with a focus on skills, training, and verification requirements. This is a commitment under the NSW Water Strategy and expected to be delivered by the end of 2024. Effective implementation will take many years given the many constraints on both the local water utility workforce and training availability in regional NSW.

#### 3. With respect to strategic planning by LWUs:

##### a. How many LWUs currently have strategic plans in place?

Ten LWUs are participating in the department's Strategic Planning Assurance program and all 10 currently have strategic planning in place. A further 57 LWUs are currently developing their

strategic planning with funding from the Safe and Secure Water Program and technical support from the department's technical advisory team.

**b. Is the Department considering legislative reform to require the production of strategic plans? Why/why not?**

The department is currently considering investigation into five critical gaps in local water utilities regulation, identified by the sector as potential barriers to better management of regional town water service risks. This is a focused investigation and is not expected to undertake review of any other aspects of the *Local Government Act 1993*.

One of the five identified gaps is that there are currently no mandatory legislative strategic planning requirements specific to local water utilities' water supply and sewerage services and no mandatory government oversight and/or assurance of local water utilities' strategic planning for water supply and sewerage services.

The investigation will analyse:

- the evidence in relation to these gaps in NSW local water utilities regulation and the extent to which these gaps contribute to regional town water service risks,
- the case for policy, regulatory or legislative change to address each gap including a high-level assessment of the relative costs and benefit of viable solutions,
- the views of councils, local water utilities, Joint Organisations, industry groups, NSW Government water co-regulators, customers, and the community.

The department is cognisant of the NSW Government's policy position that there shall be no forced amalgamations of councils and that councils will continue as the owners of their water and sewerage assets. The investigation must apply this core policy position. The Regulatory and Assurance Framework provides councils with the option to request an assurance assessment from the department to test if they have effective, evidence-based strategic planning in place. This mechanism allows councils to assure that their LWU's strategic planning is sound, as well as identify areas of improvement where the department's Support and Advisory functions can provide further assistance.

**4. With respect to the Town Water Risk Reduction Program:**

**a. What is the total funding allocated to the Program to date?**

The total funding allocated to both Phase 1 and Phase 2 of the Town Water Risk Reduction Program is \$37.7m. The First Phase was completed in December 2022 with \$4.9m funding allocated. The second phase is now at the end of its first year and has \$32.8m allocated.

**b. Are there plans to fund the Town Water Risk Reduction Program beyond Phase 2?**

Assessment of future activities in a third phase of the Town Water Risk Reduction Program will be considered after the findings of the review of regulatory gaps and the review of alternative funding models. This assessment has not yet been made.

**c. What were the findings of Phase 1 of the Program in relation to funding models for local water utilities and how are these being addressed?**

The review into alternative funding models was deferred to Phase 2 of the Town Water Risk Reduction program. This review is currently underway with the NSW Productivity Commission engaged to undertake this review. We anticipate the findings of this review will be available in June 2024.

**d. Has the TWRRP (Town Water Risk Reduction Program) resulted in changes to the delivery of the Safe and Secure Water Program funding? If so, what are they?**

TWRRP has resulted in changes to the strategic planning funding stream of SSWP. Prior to TWRRP, this funding stream only supported Integrated Cycle Water Management (IWCM) strategies. LWUs can now access funding to focus on one or more of the 12 defined strategic planning outcomes detailed in the Regulatory and Assurance Framework.

**e. What was the rationale for folding Phase 2 of the Program back into other programs that support water utilities, rather than maintaining a dedicated separate team?**

The core focus of Phase 2 is implementation of findings from Phase 1. The Water Utilities Branch of DCCEE Water is responsible for Implementing the Regulatory and Assurance Framework as its core business. In addition, the Water Utilities Branch has an established team of technical and support staff with working relationships across the sector to carry out the recommendations that become Phase 2 of the Town Water Risk Reduction Program:

- The Skills and Training action plan emerged from the extensive consultation in Phase 1 where this fundamental issue of water utilities not being able to attract and retain staff was heard from right across the sector.
- Similarly, the Advanced Operations Support program was identified as a critical need for treatment plants that could be optimised rather than replaced to operate in an efficient and effective state with minimal investment.
- The important policy work identified can be carried out by our existing Water Utilities Branch Policy and Pricing Team.

**5. With respect to the Regulatory and Assurance Framework for Local Water Utilities:**

**a. How is the Department measuring, or intending to measure, the adoption, implementation, and effectiveness of the Framework?**

As part of the department's commitment to continuous improvement, the following actions are in place:

- 2-year implementation review.

The department will conduct a performance review of the implementation of the Regulatory and Assurance Framework, and its associated guidance materials, within 2 years from its implementation. As such, the department will implement a formal review in July 2024 on the adoption, implementation, and effectiveness of the Regulatory and Assurance Framework.



- 5-year comprehensive review of the framework and associated documents

There will also be regular periodic reviews of the relevant regulatory documents, which will happen at least every 5 years, with the first full suite review foreseen for July 2027.

- Continuous improvement measures

The department has made commitment to improve effectiveness over time. Some of the measures that are being implemented include: development of local water utilities service risks matrix and process; systems for collection, evaluation, and implementation of issues for improvement; and a quality assurance framework for the department's local water utilities branch.

In addition to these, the department implements various activities to assess the uptake and effectiveness of the Framework including:

- on-going support and advise functions, directly engaging with LWUs through the Regional teams and the Technical Advisory & Training team.
- Regulator Perception Survey to identify progress and areas for improvement with the sector, specific to the regulatory functions detailed in the Framework.
- collecting feedback from the LWU sector via online surveys and post-engagement activities, such as the five Roadshows held in May/June 2023

**b. What education and engagement activities has the Department undertaken to ensure understanding of, and compliance with, the Framework?**

The department has set out a number of education and engagement activities to support the understanding and compliance with the Framework, including the development of an Education Strategy to systematically target knowledge gaps and needs. From this Education Strategy, the department has provided presentations to the LWU sector during its Roadshows on the Key Changes from the Regulatory and Assurance Framework, as well as targeted education activities with Councils and Joint Organisations. Feedback gained from these activities will inform a new targeted cycle of education activities for the LWU sector on the Framework's Strategic Planning Outcomes and Section60 process in 2024.

The department also continues to engage and provide direct support to LWUs through its Regional teams and the Technical Advisory & Training team. These engagements support LWU staff in engaging with and understanding the regulatory and assurance functions the department performs, as described in the Framework.

**6. With respect to the Aboriginal Communities Water and Sewerage Program:**

**a. How are projects prioritised and funding allocated?**

Funding is split between Operations & Maintenance (including backlog and emergency works), and capital projects. Funding is allocated to O&M first, with the programs remaining budget allocated to capital works. The programs funding comes from both the NSW Government and the NSW Aboriginal Lands Council (NSWALC).

The program engaged the consulting firm Stantec to complete an asset management review and capital investment plan, which was delivered in 2022. One of the outcomes of this engagement was a high-level prioritised capital investment profile for the next 30 years for each of the communities the program serves. DCCEEW Water has consolidated the outcomes of the review and is prioritising the projects based on the following criteria:

- Health risk
- Impact on level of service to the community
- Asset condition and age
- Asset ownership (owned by the LALC or the LWU)
- Operating costs
- Capital costs.

The ACWSP (Aboriginal Committees Water and Sewerage Program) Steering Committee approves all capital works.

**b. Has an evaluation of the Program's effectiveness been undertaken and, if so, what were its findings?**

Yes. The Deed of Agreement for the Program required an independent review within 10 years of the commencement. Aboriginal Affairs engaged the consulting firm Arup to conduct the independent review. The Final Evaluation Report was issued in October 2017.

The scope of the independent review was to 'consider policy, program design, management, and implementation issues, and assess the efficiency and effectiveness of the Program in achieving its goals and objectives,' and to provide recommendations on key aspects of the Program design (relevance to beneficiaries, efficiency, partnerships and cooperation, effectiveness, and innovation).

The independent review found that the Program has been effective in its progress towards achieving its stated objectives of protecting and improving health in discrete Aboriginal communities. Through the long-term commitment to support discrete Aboriginal communities, the Program has:

- engaged service providers to take responsibility for the management of water supply and sewerage systems from Local Aboriginal Land Councils (LALC)
- brought the services for discrete Aboriginal communities within a standardised regulatory system
- largely addressed significant backlog maintenance issues which were preventing the delivery of adequate services
- responded effectively to emergencies and delivering priority capital works
- engaged effectively with LALCs, which own the water supply and sewerage assets.

The Program has resulted in safer and more reliable water supply and sewerage systems in the discrete Aboriginal communities. Ongoing monitoring has demonstrated improvements in drinking

water quality, including water supplies which had failed to meet the *Australian Drinking Water Guidelines* criteria with long-standing 'boil water notices'. The independent review found achievements in each key aspect of the Program design (relevance to beneficiaries, efficiency, partnerships and cooperation, effectiveness, and innovation).

## Supplementary Questions asked of witnesses from the Office of Local Government

The following three questions asked of Office of Local Government witnesses were referred by the Office of Local Government to DCCEEW Water to respond to as they concern issues and programs that fall under the administrative responsibility of DCCEEW Water, and answers are provided below.

### 1. How will the integration of strategic water planning into the integrated planning and reporting (IP&R) framework simplify strategic planning activities and encourage uptake of strategic planning by water utilities?

Under the regulatory and assurance framework, local water utilities are responsible for developing and implementing their own strategic planning with the aim to ensure strategic planning outcomes outlined in the framework are achieved to a reasonable standard.

In the context of the outcomes-based approach to strategic planning set out in the regulatory and assurance framework, many in the local water utility sector have expressed the view that the use of IP&R framework to strategic planning for local water utilities has the following benefits that would encourage uptakes:

- reduce duplication in local water utility strategic planning and reporting by making the development process simpler and eliminating the need to reproduce documents specifically for water and sewerage services when they already exist in the IP&R context
- provides a robust framework that all councils must comply that can be built upon
- considers the whole context of each council's business, which can provide opportunity to improve the quality of decision making by the council
- inputs, systems, and processes under the IP&R framework can be used to demonstrate achievement expected outcomes of local water utility strategic planning.

The department has provided a guidance document on *Using the Integrated Planning and Reporting framework for local water utility strategic planning* for councils interested in using the Integrated Planning and Reporting (IP&R) framework of the *Local Government Act 1993* for local water utility strategic planning. It is important to note that the Regulatory and Assurance Framework for Local Water Utilities does not require Council's to integrate their water and sewer planning with their IP&R processes.

The department continues to work with interested councils and joint organisations of councils over the next cycle of IP&R (from 1 July 2022 to 30 June 2025) to support pilots using the IP&R framework for local water utility strategic planning.



The department is providing in-kind support to the Central NSW Joint Organisation of Council's to undertake a pilot program for IP&R integration across its 12 member Councils. This project will produce a toolkit to support integration with IP&R activities and the Joint Organisation intends to share its learnings with the sector. This is consistent with the department's objectives for supporting pilot programs; that is that the department learn from those programs and share the knowledge, expertise, and learnings with the sector more broadly through future updates of the guidance.

Synergies in strategic planning activities across frameworks may occur, however until outcomes from the pilot phase are completed on 30 June 2025, the simplification and improved uptake of strategic planning by water utilities is still undetermined. Staff within the local water utilities branch supporting this pilot have noted that a considerable portion of strategic planning expenditure and effort is focussed on data gathering technical studies and investigations that is still required regardless of integration with the IP&R framework.

## **2. Which councils are taking part in the pilot program to trial IP&R-focussed approaches to local water utility strategic planning?**

As indicated in the response to question 1 above that was addressed to the Office of Local Government witnesses, DCCEEW Water is supporting the Central NSW Joint Organisation to undertake a pilot program for IP&R integration across its 12 member councils. This initiative will produce a toolkit to support integration of LWU activities with IP&R activities and the joint organisation intends to share its learnings with the local government sector.

## **4. What are the advantages of regional collaboration and how is the Office of Local Government promoting this? What are some examples of collaborative models being trialled through the Town Water Risk Reduction Program and how have these performed?**

Advantages of regional collaboration include:

- the sharing of resources and costs to develop the evidence base required for strategic planning
- the sharing of expertise, resources, and costs in delivering water and sewer services
- coordinated response to incidents impacting water and sewer services.

Development of the new Regulatory and Assurance Framework has required close collaboration and partnership between the Department and more than 200 people from various organisations across the water sector (local water utilities, local government, other regulators, and the private sector). Discussions have been progressed through multiple collaborative design forums (e.g., face-to-face regional workshops, strategic planning and technical assessment and approvals working groups etc) and in consultation with the Program's Stakeholder Advisory Panel. In addition, several strategic planning pilot projects have been initiated in partnership with JOs and local water utilities to test:

- new and flexible approaches to regulating local water utility strategic planning
- how local water utility strategic water planning can be better integrated with council's general planning requirements under the IP&R Framework
- regional collaboration approaches to incident and

emergency management. In the past 18 months, the Program has developed a new Regulatory and Assurance Framework that represents a positive outcomes-focused, practical, and cost-effective approach to addressing barriers and reducing risks to town water and sewerage services. The Regulatory and Assurance Framework commenced on 1 July 2022, with strategic planning components expected to become operational from December 2022.

Close to half of the survey participants felt the collaborative process to develop the Regulatory and Assurance Framework helped lay foundations for future productive collaboration with the Department (47.8%), and that the process helped them feel supportive of the new approach to regulation (43.5%). About a fifth of survey participants do not feel supportive of the new approach to regulation (21.5%), and a small number felt the process was a waste of time (13%). However, half of the participants that provided a negative response reported that they had little to no involvement in the co-design process.

The establishment of a range of pilot projects focused on testing and improving aspects of the Regulatory and Assurance Framework and reducing identified risks, with the aim of: - encouraging greater collaboration among local water utilities facing similar issues - facilitating greater State Government support for strategic planning by local water utilities - helping to review the financial needs and capacities of local water utilities to meet their community service obligations. The pilot projects have been undertaken with a range of councils, local water utilities, JOs and Water Alliances from across NSW. Phase 1 of the Program has aimed to make local water utilities and JOs aware of regional opportunities to work collaboratively and increase their motivation to maintain or enhance their collaborative efforts, improve department-State Owned Corporation (SOC) collaboration, approachability and effectiveness in helping local water utilities address barriers and risks, and improve the alignment of modelling, risk and options analysis between Regional Water Strategies and strategic planning by local water utilities. The Program has made progress in improving local water utility and JO awareness of opportunities and motivation to collaborate, and has improved the department's and SOCs' collaboration, approachability, and effectiveness.

The Program was designed with a focus on improving collaboration between the department, SOCs and local water utilities to address barriers and risks to town water and sewerage services. Overall, stakeholders reported an improvement in collaboration because of the program (50%), however many stakeholders felt there was still room for improved collaboration in the future. Close to a quarter of stakeholders reported no change in collaboration (27.3%) because of the Program.