

**Submission  
No 1**

**EXAMINATION OF THE AUDITOR GENERAL'S PERFORMANCE AUDIT  
REPORTS JUNE - DECEMBER 2020**

**Organisation:** Department of Planning, Industry and Environment (DPIE)

**Date Received:** 31 August 2021

Mr Greg Piper MP  
Chair of the Public Accounts Committee  
Temporary Speaker  
Member for Lake Macquarie  
Parliament of NSW  
Macquarie Street  
SYDNEY NSW 2000

Dear Mr Piper,

**Auditor-General's performance audit report - *Water Conservation in Greater Sydney***

I refer to your letter of 23 July 2021 seeking a submission to the Public Accounts Committee, outlining the Department of Planning, Industry and Environment's (DPIE) response to the Auditor-General's report 'Water Conservation in Greater Sydney', tabled in Parliament on 23 June 2020. You have also requested a summary of action taken against each of the recommendations, feedback on the effectiveness of the audit process, including the benefit of the audit to our agency and program delivery, the costs of the audit and any suggestions for improvement. The DPIE Secretary has asked that I respond on his behalf.

As per our response to the Auditor General's report in 2020, the Department acknowledged that a greater emphasis on water conservation is needed and agreed with the Auditor-General's recommendations. It supported the report's findings that there are opportunities for the Department and Sydney Water to improve water conservation initiatives in Greater Sydney and a significant amount of work has been undertaken to identify and deliver on those opportunities over the past 12 months.

**Action taken**

Strategic actions relevant to the audit's recommendations that have been taken to date include:

- **Water sector reform** - the Auditor-General's report highlighted the complexity of institutional arrangements in the water sector. Since the formation of DPIE and the consolidation of strategic water planning in DPIE's Water Group, the Department has made considerable progress towards lifting water sector performance by having a single unifying department responsible for the strategic direction of the sector. This significant program of reform is reviewing the barriers to good performance in the sector, including the regulatory and institutional arrangements, ensuring DPIE provides greater clarity around the Government's desired outcomes for our community, defining water sector roles and responsibilities and providing an increased focus on useful monitoring and reporting.
- **Improved water governance** – a Water Sector Leadership Group has been established, co-chaired by the Deputy Secretary of Water in DPIE and the Deputy Secretary of NSW Treasury and bringing together the senior leadership of the Chief Executives of the three Water State Owned Corporations and other senior staff from DPIE and the Department of Regional NSW. This Group has responsibility for implementing the Government's vision for the water sector. This includes oversight of the Greater Sydney Water Strategy, the NSW (State) Water Strategy, the Lower Hunter Water Security Plan, Regional Water Strategies and water sector reform.

- **Development and public exhibition of the NSW Water Strategy** – At the state-wide level, this strategy proposes more than 40 actions across seven priority areas, focused on improving the security, reliability, quality and resilience of the state’s water resources and on continuing to rebuild community confidence in water management in NSW. The strategy includes a range of public commitments including using water more efficiently and the development of a state-wide Water Efficiency Framework and Program. The final strategy will be released in late 2021.
- **Statewide Water Efficiency Framework** – As part of the NSW Water Strategy, the Government is developing a state-wide Water Efficiency Framework and Program that will focus on building water efficiency capacity, gaining a greater understanding of water use, improving the evaluation of water efficiency initiatives and increasing private sector involvement. The framework will also provide a clear statement of NSW Government policy in relation to supporting and investing in water efficiency across all sectors, and consider the effectiveness of the Building Sustainability Index (BASIX) in driving and sustaining water efficiency. This will build on existing data that shows that BASIX is not as effective as expected and that more needs to be done to improve water efficiency performance.
- **Developing the draft Greater Sydney Water Strategy (GSWS)** – The draft GSWS sets the strategic direction for water management in Greater Sydney. It outlines how we are managing our water today, as well as the key priorities we need to focus on to increase our resilience to climate change and support population growth. The priority actions in the draft GSWS include a renewed focus on water conservation, making better use of our existing assets and increasing our level of rainfall independent supply. The strategy will chart a fresh direction for government, industry and communities to work together and plan for the future with confidence. The draft strategy has been completed and will be released for public consultation in September 2021. There are a number of actions in the draft strategy that specifically respond to the Auditor-General’s recommendations, including:
  - it sets a clear policy position that the NSW Government treats water efficiency as a key component of urban water planning to reduce our demand and potentially defer the need for supply augmentations.
  - identifying a long-term water efficiency program aimed at saving an additional 38 GL/year of drinking water each year by 2030, and by 2040, 49 GL/year of drinking water (which is equivalent to 55% of the annual water production of Sydney’s Desalination Plant (90 GL/year))
  - DPIE and Sydney Water have committed to funding the water efficiency program over the next three years at a cost of approximately \$23 million per year and identified a sustainable long-term funding source through the Climate Change Fund
  - Supporting the role of recycled water for a range of beneficial purposes including cooling and greening, supporting the health of our rivers by supplementing environmental flow releases, and beginning the conversation with the community about the potential for purified recycled water to form part of the drinking water supply in the future

DPIE has been working with Sydney Water and key stakeholders to address the issues raised and the recommendations in the audit report. Actions taken to date against each of the Auditor-General’s recommendations are provided in Attachment A, in the requested template.

## **Costs of the audit and feedback on its effectiveness**

DPIE staff costs to participate and respond to the audit and monitor progress against the recommendations are estimated to be \$25,000. This is a worthwhile investment in the valuable process of the performance audit and DPIE was pleased to allocate resources towards it.

The audit process provided a thorough assessment of water conservation planning and implementation in Sydney and identified areas for improvement. The audit recommendations have informed content in the NSW Water Strategy, Greater Sydney Water Strategy and DPIE business planning deliverables. The Audit Office staff were professional and respectful in their dealings with the agency, gave adequate opportunity to discuss the scope of the audit and time for staff to provide comment. The Audit Office made significant effort to understand the content provided on the specific topics and their alignment with broader strategic water planning priorities.

The audit has been a helpful enabler in providing renewed focus in water conservation across the DPIE cluster and partner agencies.

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Yours sincerely

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Jim Bentley  
Deputy Secretary, Water

## IMPLEMENTATION OF RECOMMENDATIONS

## Department of Planning, Industry and Environment

## Water Conservation in Greater Sydney

RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBLE (Section of agency)
1 1. The Department should develop a clear policy and regulatory position on:	Accepted	a) water efficiency - reducing water demand through programs that aim to increase water efficiency and change behaviour.	By July 2021	<b>Completed</b> - The NSW Water Strategy (2021) - Action 6.5 commits Government to the development of a state-wide Water Efficiency Framework and Program. The Framework has been drafted and consultation with water utilities is being undertaken. It is planned for public release following the NSW Water Strategy in late 2021. The draft Greater Sydney Water Strategy (2021) proposes a comprehensive water efficiency program saving 38GL by 2030 and 49GL of by 2040 with an average investment of \$23 million per year. Discussions have commenced with IPART to enhance water efficiency requirements in metropolitan water utility licences.	DPIE Water Group
		b) potable water reuse - engaging with the community to understand whether highly treated recycled water can be considered as a future option for drinking water.	By July 2021	<b>Completed</b> - The NSW Water Strategy and the draft Greater Sydney Water Strategy both emphasise that potable water reuse needs to form part of our future water supply options. Specifically, the draft Greater Sydney Water Strategy commits Sydney Water to investing in a purified recycled water demonstration plant and to undertake a community engagement program to provide information on this option and seek feedback on how to best implement this in the future.	DPIE Water Group

RECOMMENDATION		ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBLE (Section of agency)
			c) water recycling - addressing reported barriers such as developer charges and improved access to planning and land release processes for private water utilities.	By July 2021	<ul style="list-style-type: none"> <li>• <b>Completed</b></li> <li>• Recycled Water: The importance of, and the intent to increase the amount of recycling is stressed throughout the draft Greater Sydney Water Strategy. The strategy identifies that "Water conservation and recycling are critical to securing our water supply" Principles for improving the resilience of Greater Sydney's water system are identified including diversifying water sources. Identified measures include making more use of local water sources such as stormwater and recycling.</li> <li>• DPIE is also ensuring that, where appropriate, the planning control documents in new development areas in Sydney support the uptake of non-potable recycled water to reduce the demand on the drinking water supply and support cooling and greening outcomes</li> <li>• On 2 August, Cabinet approved reforms to the licensing framework for private utilities under the Water Industry Competition Act, including further work to improve the interaction between the Act and the planning approvals process for private water utilities</li> <li>• Developer service charges -The NSW Government in March 2021 accepted the NSW Productivity Commissioner's recommendation to phase in the re-introduction of water and wastewater developer charges in Sydney and the Lower Hunter. Work has begun to implement this commitment. Consultation with industry stakeholders on transitional arrangements to phase in charges is expected to occur before the end of 2021 for an official policy change date of 1 January 2022.</li> </ul>	DPIE Water Group
			d) stormwater harvesting - enhancing cooperation between State and Local Government, Sydney Water and private water utilities.	By July 2021	<ul style="list-style-type: none"> <li>• <b>Completed</b></li> <li>• The NSW Water Strategy and the draft Greater Sydney Water Strategy support the use of stormwater harvesting across the State.</li> <li>• DPIE has established a dedicated project team, supported by an economic consultancy to identify the governance model and regulatory approach to regional stormwater management.</li> </ul>	DPIE Water Group
2	The Department should establish clear mechanisms to ensure water conservation is treated explicitly in the management of Greater Sydney's water resources, including:	Accepted	a) establishing formal governance arrangements to assist in developing and implementing Sydney Water's planning and reporting for water conservation.	By July 2021	<ul style="list-style-type: none"> <li>• <b>Completed</b></li> <li>• A coordinating group of the Water Sector Leaders Group, co-chaired by the Deputy Secretary of Water in DPIE and the Deputy Secretary of NSW Treasury and including the heads of Sydney Water, WaterNSW and Hunter Water, has been established to agree on responsibilities and implement the Government's vision for the water sector. This includes oversight of the Greater Sydney Water Strategy and the Lower Hunter Water Security Plan and water sector reform.</li> </ul>	DPIE Water Group

RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBLE (Section of agency)
				<ul style="list-style-type: none"> <li>The Greater Sydney Strategy Governance Groups were used to approve the water efficiency volumes and costs proposed in the draft Greater Sydney Water Strategy. The agencies included in the Governance Forums include DPIE, NSW Treasury, Sydney Water and WaterNSW.</li> <li>A dedicated Water Conservation Working Group is being established to oversee the implementation of the water efficiency framework across Greater Sydney and the rest of the State.</li> </ul>	
		b) establishing roles and responsibilities for water conservation research, planning and implementation, and engaging Sydney Water, IPART and other agencies in this activity.	By July 2021	<ul style="list-style-type: none"> <li><b>Completed</b></li> <li>A Water Efficiency Framework has been developed to identify roles for water efficiency planning delivery and review. Engagement on the Framework with water utilities and IPART has commenced. The revised Framework will be released publicly in late 2021.</li> <li>Establishing roles and responsibilities for water conservation research, planning and implementation has been included in the forward workplan for DPIE's Water Group.</li> <li>In addition, a dedicated water efficiency team is being established in DPIE to set the strategic direction for statewide water efficiency and to deliver some of the projects that are Government-led.</li> </ul>	DPIE Water Group
		c) evaluating progress with the Greater Sydney Water Strategy, including annual reviews of the level of investment (by the Department and Sydney Water) in water conservation.	By July 2021	<ul style="list-style-type: none"> <li><b>Completed</b></li> <li>The Greater Sydney Water Strategy will have a regular monitoring and evaluation report which will include data on the progress of Sydney Water and DPIE on water efficiency and conservation actions.</li> <li>The draft Greater Sydney Water Strategy assessed current water conservation initiatives and has identified ongoing effort and investment (\$23 million per year, from Sydney Water and Government) could reduce drinking water use by around 49GL a year by 2040.</li> </ul>	DPIE Water Group
3	Accepted	a) ensuring the Climate Change Fund is being used to effectively fund water saving initiatives.	By July 2021	<ul style="list-style-type: none"> <li><b>Completed</b></li> <li>To support the Greater Sydney Water Strategy funding will be made available within DPIE for water efficiency including \$1M in 2021-22, \$3M in 2022-3 and \$3M in 2023-24 and triggering Sydney Water contributions to the Climate Change Fund from the start of the next price determination in 2024 for Sydney Water to contribute approx. \$6 million per annum to the DPIE-led actions.</li> </ul>	DPIE Water Group
		b) identifying and assessing other funding mechanisms for water conservation, including resourcing for research and development.	By July 2021	<ul style="list-style-type: none"> <li><b>Completed</b></li> <li>Collaborative opportunities have been progressed for the implementation of water efficiency projects with Land and Housing Corporation, the Department of Education and Sydney Water. A successful joint funding bid (with Sydney Water) was made to the Digital Restart Fund (Smart Places Acceleration Program) for a smart metering project and greywater</li> </ul>	DPIE Water Group

RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBLE (Section of agency)
				reuse trial. An additional DPIE and Sydney Water joint project is currently being considered by the Digital Restart Fund.	
4 The Department, working with Sydney Water, should assess the viability of current and future water conservation initiatives, including:	Accepted	a) commissioning a detailed options study to inform a water conservation program.	By July 2021	<ul style="list-style-type: none"> <li>• <b>Completed</b></li> <li>• Consultants were engaged to: develop a best practice Water efficiency Framework; undertake an options scan that reviewed 300 water efficiency (demand management) programs world-wide and 150 emerging technologies; and undertake a gap analysis of current water efficiency programs and activities in Sydney against the Water Efficiency (best practice) Framework.</li> </ul>	DPIE Water Group
		b) applying an evidence-driven method to assess water efficiency and leakage management initiatives, and water recycling schemes.	By July 2021	<ul style="list-style-type: none"> <li>• <b>Completed</b></li> <li>• Consultants were engaged to review the Economic Level of Water Conservation method and develop a new Water Efficiency Assessment Approach. The Water utilities have been consulted on this and discussions have commenced with IPART on how the new approach may be included in the utilities operating licences.</li> </ul>	DPIE Water Group
		c) reviewing BASIX including water savings targets, program design and implementation.	By July 2021	<ul style="list-style-type: none"> <li>• <b>Delayed until Q3 2022</b></li> <li>• The NSW Water Strategy commits to the review of BASIX and funding requirements have been identified in the draft Greater Sydney Water Strategy.</li> <li>• Additional data and information is being gathered to assess the current performance of BASIX (water requirements), before improvements to BASIX (water requirements) can be recommended.</li> <li>• A dedicated role is being created to lead this work in DPIE Water commencing in late 2021. Funding has been secured and a workplan has been developed to ensure this is delivered in a timely way.</li> </ul>	Planning and Assessment
5 Sydney Water should develop and implement a rolling detailed five-year plan for water conservation with clear objectives that, at a minimum meets the requirements of the Greater Sydney Water Strategy and its operating licence, including:	Accepted	a) establishing baseline funding and resourcing for water conservation including research and pilots b) reviewing, in conjunction with IPART, the ELWC methodology and the way it is being applied c) developing and maintaining relationships with sector specialists, businesses and government d) detailing how its individual		Sydney Water will report progress on its assigned recommendations on the 20 <sup>th</sup> of September as part of its response.	N/A



RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBLE (Section of agency)
		initiatives will be implemented.			
6 Sydney Water should improve its annual reporting on its water conservation that at a minimum meets the requirements of its operating licence and provides clear and evidenced information on:		<ul style="list-style-type: none"> <li>a) water savings for each initiative for the previous five years, how these compare with forecast savings and how these savings are verified</li> <li>b) expenditure on each initiative for the previous five years • how customer interaction and education initiatives are encouraging behavioural change</li> <li>c) ongoing water savings from previous initiatives and whether its water efficiency initiatives are focusing on where there is the greatest potential to maximise water savings.</li> </ul>		Sydney Water will report progress on its assigned recommendations on the 20 <sup>th</sup> of September as part of its response.	N/A