

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

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

Date Received: 16 September 2021

Mr Greg Piper, MP
Chair
Public Accounts Committee
Parliament of New South Wales
Macquarie Street
Sydney NSW 2000

Our ref: V21/435#35

16 September 2021

Dear Mr Piper

Auditor-General's performance audit report - *Support for regional town water infrastructure*

Thank you for the opportunity to provide a submission outlining the response of the Department of Planning, Industry and Environment (the department) to the Auditor-General's report *Support for regional town water infrastructure* tabled on 24 September 2020.

The department accepts all seven of the NSW Auditor-General's recommendations made in the *Support for regional town water infrastructure* report.

The department is progressing all actions either through our Regional Water Strategies, Town Water Risk Reduction Program or Safe and Secure Water Program, in consultation with the local water utility sector (see Attachment A).

The Regional Water Strategies will outline the high-level regional level priorities for town water security that local water utilities can then draw down for local planning purposes (Recommendation 2).

The Town Water Risk Reduction Program recently published the draft Roadmap to an improved regulatory framework for local water utilities (Attachment B), which was co-designed with over 50 local water utilities and 20 other stakeholders. The roadmap responds to Recommendation 1, to develop and implement a clear policy and regulatory approach to overseeing and supporting local water utilities. The actions identified in the roadmap will also progress and respond to the other six recommendations made by the Auditor-General.

Water Infrastructure NSW is implementing its Governance Framework and Assurance Framework, both of which apply to the Safe and Secure Water Program. Implementation of these Frameworks will further support and enable improvements in administration and transparency (Recommendation 4). The Safe and Secure Water Program has also recently completed a department program evaluation (Recommendation 7).

The Auditor-General's recommendations strongly identify the need for consultation with the local water utility sector and the department has heard this echoed back from the sector. Collaboration takes time to build momentum which is adding a number of additional months to the targeted milestones of five actions. We have listened to our stakeholders

and we need sufficient time to enable a collaboration with the sector to design the new approach to our strategic planning regulatory function and have committed to the sector to deliver the new approach to strategic planning by 1 July 2022 (Recommendations 3, 4, 5 and 6). Similarly, the delivery of the department's Regional Water Strategies is delayed to December 2022 to allow for greater consultation with councils, joint organisations and the public (Recommendation 2). Initially these actions were targeted for completion 31 October 2021.

If you have any questions about the department's response to the Auditor-General's recommendations or this submission, please contact [REDACTED]

Yours sincerely,

[REDACTED]
Jim Bentley
Deputy Secretary – Water

Attachments	Title
A	Summary table of recommendations and progress
B	Draft Roadmap to an improved regulatory framework for local water utilities

Attachment A

IMPLEMENTATION OF RECOMMENDATIONS

Department of Planning, Industry and Environment
Support for regional town water infrastructure

RECOMMENDATION		ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBILITY (Section of agency responsible for implementation)
1	As a matter of priority, the Department of Planning, Industry and Environment should: Develop and implement a clear policy and regulatory approach to overseeing and supporting LWUs. It should do this in consultation with the LWU sector.	Accepted	a) Update and publish information about the department's regulatory processes for local water utilities	31 Oct 2021	On track By 30 April 2021, the department published on our website updated information on existing regulatory processes for Integrated Water Cycle Management (IWCM) strategy assessments, focused on improving accountability and transparency. By 30 June 2021, the department published on our website updated information on existing regulatory processes for infrastructure approvals and assessments (section 60 of the Local Government Act 1993) including the status of current assessments and applications, focused on improving accountability and transparency.	Water Group - Operations Division - Water Sector Reform Division
			b) Engage with the local water utility sector to develop clear policy and regulatory objectives.	31 Oct 2021	On track In June 2021, the department engaged with the local water utilities sector (councils, local water utilities, industry associations, joint organisations, co-regulators and the private sector) to collaborate on developing policy and regulatory objectives and approaches to improve for the department's regulation of local water utilities. The outcome of this engagement is the department's Roadmap to an improved regulatory framework for	
			c) Develop a roadmap to an improved regulatory framework for local water utilities			

					<p>local water utilities, which was launched as a draft for comment on 4 August. The Roadmap includes local water utility sector objectives, the department's regulatory objectives and principles and actions to improve the regulatory framework.</p> <p>We expect to incorporate feedback on the draft roadmap and publish a final version in September 2021.</p>	
2	As a matter of priority, the Department of Planning, Industry and Environment should: Address Coordination, timing and LWU sector engagement risks to integrating state-wide regional water planning with investments in town water infrastructure and risk reduction. This should include: Coordinating the development and continuous improvement of regional water strategies with current evidence of town water	Accepted	<p>a) Develop 12 regional water strategies to bring together the best and latest climate evidence with a wide range of tools and solutions to plan and manage the water needs in each NSW region over the next 20-40 years.</p>	31 Oct 2021	<p>Delayed to December 2022 to allow for greater consultation with councils, joint organisations and the public.</p> <p>The Greater Hunter Regional Water Strategy is in implementation. Eight draft Regional Water Strategies have been published, which have been built off engagement with local water utilities, councils and Joint Organisations. The remaining three draft strategies will be published by the end of 2021.</p> <p>The next version of the Regional Water Strategies will outline the high-level regional level priorities for town water security that local water utilities can then draw down for local planning purposes</p> <p>The regional water strategies are being developed in consultation with local councils and joint organisations. The timelines for finalising the strategies have been amended to allow for greater engagement with councils, joint organisations and the public.</p>	Water Group - Water Strategies Division
			<p>b) Provide access to climate risk and water availability models and model</p>	31 Oct 2021	On track	

	risks and investment priorities; ensuring consultations on regional water strategies provide adequate and transparent opportunities for LWUs' input about town water risks and proposals to resolve these; providing LWUs with timely access to its climate risk and water availability data and modelling approaches, as these become available.		outputs as they become available.		<p>In September 2021, we will publish a proposed timetable for the department's open data framework to enable public access to models and model outputs, including regional water strategy data that is relevant and useful for local water utility strategic planning.</p> <p>We will provide access to climate risk and water availability models and model outputs as they become available.</p>	
3	By 31 October 2021, the Department of Planning, Industry and Environment should: Design and commence implementation of an outcomes-focused approach to its oversight and support of LWUs' Integrated Water Cycle	Accepted	a) Collaborate with the local water utilities sector to design a new approach to strategic planning regulation.	31 Oct 2021	<p>Delayed to 1 July 2022 to accommodate extensive and robust sector consultation and collaboration with local water utility sector, which was not included in planning when milestone was originally proposed.</p> <p>The Roadmap to an improved regulatory approach to local water utilities (published 4 August) includes actions for the department to collaborate with the local water utility sector to design a new approach to strategic planning regulation.</p>	Water Group - Water Sector Reform division

	Management (IWCM) planning, supported by: clear definitions, assessment criteria, procedures and timeframes for the assessment of IWCM planning instruments; accurate data to monitor and publicly report on IWCM planning and implementation status; assistance to LWUs to procure value-for-money IWCM planning services, including enabling joint or regional approaches.				<p>Our planned changes to the department's strategic planning regulatory function include:</p> <ul style="list-style-type: none"> - Changing our approach by setting clear objectives, scope, expectations for strategic planning and provide guidance for local water utilities on how to meet the requirements. - Changing our assessment process to one that is flexible and supports adaptive strategic planning and is clear, transparent and more accountable. - Improving the secure yield analysis guidelines, methods and enable utilities access to data - Improving the integration of local water utilities' strategic planning with the Integrated Planning and Reporting Framework. - Investigate minimum service levels with alternative funding models. <p>We need sufficient time to enable a collaboration with the local water utility sector to design the new approach to our strategic planning regulatory function and have committed to the sector to deliver the new approach to strategic planning by 1 July 2022.</p>	
4	By October 2021, the Department of Planning, Industry and Environment should: Improve the administration and transparency of its LWU oversight, support and funding	Accepted	<p>a) Implement a clear, transparent and accountable approach to regulating local water utilities.</p> <p>b) Develop and implement a monitoring and evaluation framework to monitor our performance as a</p>	31 Oct 2021	<p>Delayed to 1 July 2022 to accommodate extensive and robust consultation and collaboration with local water utility sector, which was not included in planning when milestone was originally proposed.</p> <p>We are committed to meeting our regulatory objectives, enabled by our regulatory principles - set out in our Roadmap to an</p>	<p>Water Group</p> <ul style="list-style-type: none"> - Water Sector Reform division - Water Infrastructure NSW

	<p>activities. At a minimum, the requirements of the New South Wales' State Records Act 1998 should be met. Actions should also involve implementing: clear procedures for key decision-making points and for quality improvement and assurance processes; clear procedures that delineate the delivery of its regulatory and support activities, including to identify and resolve conflicting duties; an evidence-based approach to targeting engagement with the LWU sector; customer and outcomes-focused metrics to measure impact.</p>		<p>regulator and regularly review our regulatory processes.</p>		<p>improved regulatory framework for local water utilities.</p> <p>The Roadmap includes actions to make planned changes to our approach as a regulator, which include:</p> <ul style="list-style-type: none"> - Clearly outline local water utility sector objectives, regulatory objectives and regulatory principles. - Change the way we regulate and support local water utilities. - Improve the way co-regulators work with each other and with local water utilities. <p>We have commenced improvements to our regulatory approaches, particularly related to transparency and accountability. We have committed to collaborating with the local water utility sector to design our new approach, and intend to make the planned changes by March 2022.</p> <p>We will develop a monitoring and evaluation framework to monitor our performance as regulators and regularly review our processes. We intend to develop this framework at the same time as we commence implementation of our regulatory framework, by July 2022.</p> <p>We need sufficient time to enable a collaboration with the local water utility sector to design the new approach to our strategic planning regulatory function and have committed to the sector to work in partnership to improve our regulatory framework by 1 July 2022.</p>	
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					Implementation of the Water Infrastructure NSW Governance Framework and Assurance Framework will further support this recommendation.	
5	By October 2021, Establish governance arrangements that coordinate its strategic planning, investment prioritisation and regulatory approaches to improving town water outcomes. This should include arrangements for: coordinating LWU sector engagement with whole-of-government priorities and approaches to partnering with Local Government; promoting interagency coordination on LWU sector regulation issues across town water security, quality and environmental risks.	Accepted	<p>a) Implement a partnership approach with the local water utility sector and collaborate to design an improved regulatory framework.</p> <p>b) Improve coordination of co-regulators of local water utilities.</p>	31 Oct 2021	<p>Delayed to 1 July 2022 to accommodate extensive and robust consultation and collaboration with local water utility sector through the change process, which was not included in planning when milestone was originally proposed</p> <p>The Town Water Risk Reduction Program is implementing a partnership approach with the local water utility sector across the Program.</p> <p>In the Roadmap to an improved regulatory framework for local water utilities we are committing to improving the way co-regulators work with each other and local water utilities. This commitment has been developed with key co-regulators including: NSW Health, the EPA, and the Office of Local Government.</p> <p>A key action identified by the local water utility sector that co-regulators are committed to is: collaborate with co-regulators to make a clear commitment to the local water utility sector about what to expect from us as regulators, including roles and responsibilities, communication, participation in local water utility processes and projects, and the provision of information, support and advice. To achieve this, we will collaborate with co-regulators and the sector and have set November 2021 as the realistic timeframe for this action.</p>	Water Group - Water Sector Reform division

					We are making other changes and improvements to our regulatory framework (outlined in the draft Roadmap published on 4 August). We need sufficient time to enable a collaboration with the local water utility sector to design the new approach to our strategic planning regulatory function and have committed to the sector to work in partnership to improve our regulatory framework by 1 July 2022.	
6	By October 2021, Formalise consultative arrangements with the LWU sector that better enables collaboration and at a minimum: delivers clear and consistent communications about its regulatory purpose, oversight activities and supports especially related to IWCM planning, and funding activities; ensures LWU feedback is actively sought, documented and considered in its design and delivery of	Accepted	<p>a) Implement a partnership approach with the local water utility sector and collaborate to design an improved regulatory framework.</p> <p>b) Demonstrate and implement clear separation between regulatory, support and funding roles.</p> <p>c) Clearly communicate with the local water utility sector on our regulatory roles and strategic planning expectations.</p>	31 Oct 2021	<p>Delayed to 1 July 2022 to accommodate robust and extensive consultation and collaboration with local water utility sector through the change process</p> <p>The Town Water Risk Reduction Program is implementing a partnership approach with the local water utility sector across the Program.</p> <p>The Water Utilities Branch and Town Water Risk Reduction Program are improving our skills in collaboration by currently undertaking a collaboration skills training program.</p> <p>In the Roadmap we commit to changing the way we regulate and support local water utilities, with actions identified by March 2022 including:</p> <ul style="list-style-type: none"> - We will demonstrate and implement a clear separation between our advice and support functions and our regulatory functions. - We will ensure we maintain or increase our local presence in regional NSW for both our advice and support functions and our regulatory functions. - We will communicate to the sector how the department allocates resources to 	<p>Water Group</p> <ul style="list-style-type: none"> - Water Sector Reform division

	regulatory approaches, planning guidelines and funding programs.				<p>deliver the greatest benefit, or to focus on the biggest risks to public health, customers or the environment.</p> <p>We will develop a monitoring and evaluation framework to monitor our performance as regulators and regularly review our processes. We intend to develop this framework at the same time as we commence implementation of our regulatory framework, by July 2022.</p> <p>We need sufficient time to enable a collaboration with the local water utility sector to design the new approach to our strategic planning regulatory function and have committed to the sector to work in partnership to improve our regulatory framework by 1 July 2022.</p>	
			d) Integrate stakeholder and community engagement principles and activities into the Safe and Secure Water Program	31 Oct 2021	<p>On track</p> <p>The Safe and Secure Water Program team continues to work with the Strategic Community and Stakeholder Engagement business unit within Water Infrastructure NSW to ensure stakeholder and community engagement principles and activities are integrated in the program. Procedures are under development to deliver to the requirements of this recommendation and are on track for delivery in October.</p>	<p>Water Group</p> <ul style="list-style-type: none"> - Water Infrastructure NSW
7	On an ongoing basis, the Department of Planning, Industry and Environment should: <ul style="list-style-type: none"> - Monitor and evaluate its 	Accepted	a) Monitor and evaluate investments in town water risk reduction and infrastructure funding to improve transparency	Ongoing	<p>On track</p> <p>The Safe and Secure Water Program has recently completed a department program evaluation, which included evaluation of:</p> <ul style="list-style-type: none"> - Domestic water carting rebate - Groundwater assessments and drought staffing, and 	<p>Water Group</p> <ul style="list-style-type: none"> - Water Infrastructure NSW - Water Operations division

<p>investments in town water risk reduction and infrastructure funding to improve transparency and enable the department to identify outcomes and the contributions of its investments towards its policy goals. This should include: maintaining accurate data on the status of Safe and Secure Water Program (SSWPv1) projects, supported by formal information sharing with Infrastructure NSW; updating and implementing a monitoring and evaluation plan for the SSWPv2; monitoring the status and resolution of cross-LWU boundary town water risks.</p>				<p>- Critical water infrastructure. Outcomes from this evaluation are being shared with relevant teams.</p> <p>Upcoming evaluation needs are currently being assessed, alongside consideration of other potential internal and external (INSW) assurance activities.</p>	
		<p>b) Monitoring the status and resolution of cross-LWU boundary town water risks</p>	<p>Ongoing</p>	<p>On track</p> <p>Town water risk identification and assessment has been undertaken for the Safe and Secure Water Program; and Water Utilities Branch is working on the design and implementation of a comprehensive and ongoing risk assessment update process, including cross-local water utility boundary risks.</p>	



Attachment B

[Draft Roadmap to an improved regulatory framework for local water utilities](#)



TOWN WATER RISK REDUCTION PROGRAM

Draft roadmap to an improved regulatory framework for local water utilities

August 2021



Published by NSW Department of Planning, Industry and Environment

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This draft roadmap was developed in partnership with the local water utilities sector. We acknowledge and thank all those individuals and organisations that were interviewed, attended workshops, provided feedback and continue to work in partnership with the Town Water Risk Reduction Program.

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Acknowledgment of Country

The Department of Planning, Industry and Environment acknowledges the Traditional Owners and Custodians of the land on which we live and work and pays respect to Elders past, present and future.

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Overview

The Town Water Risk Reduction Program has been established by the NSW Government to develop and implement a new approach of working together with local water utilities across regional NSW. The program is aiming to make the management of town water systems more strategic and responsive to needs and, as a result, improve the performance of town water services across regional NSW communities over time. The program focusses on improving the regulatory framework, addressing critical skill shortages, encouraging collaboration between utilities, facilitating greater state government support, and investigating alternative government funding models. The program is being delivered by the NSW Department of Planning, Industry and Environment – Water group (the department).

Improved regulatory settings and approaches are crucial so that local water utilities and their NSW Government regulators can identify and manage risks effectively and efficiently. The regulatory framework should promote and enable utilities to address risks and strategic challenges effectively and efficiently based on locally development plans and management systems.

This draft roadmap to an improved regulatory framework was developed in partnership with the local water utility sector as part of the Town Water Risk Reduction Program.

The draft roadmap captures our shared understanding of the objectives of the local water utility sector and the department's regulatory objectives. We set out what success would look like, the changes and improvements that are needed to the department's regulatory framework to achieve success. The roadmap identifies actions the department will undertake between now and 1 July 2022 to achieve the required changes and improvements.

Our improvements to the regulatory framework for local water utilities will replace the Best Practice Management Framework, and include:

- Improving approach to regulating local water utility strategic planning by making it more outcomes-focused, flexible and accountable; improving integration with other strategic planning layers; and developing clearer guidance about our expectations.
- Reforming our technical assessment requirements and processes so they are proportionate and risk-based and improving the accountability of our decisions.
- Improving the sectors' performance monitoring to ensure it is streamlined and can identify performance trends over time to facilitate a partnership approach to addressing challenges.

We also commit to working in a collaborative way with co-regulators and tracking the outcomes of our regulatory framework and responding to feedback.

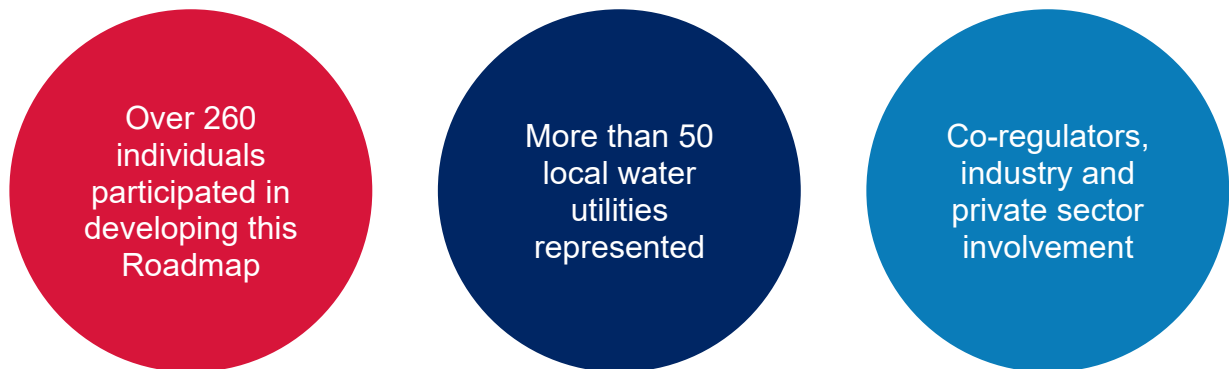
We are not proposing legislative change. The improvements to our regulatory framework are achievable within the department's processes and procedures with the endorsement of either the Minister for Water, Property and Housing or the Deputy Secretary for Water.

The new approach will ensure that the department maintains or increases our local presence in regional NSW for both our advice and support functions and our regulatory functions.

Working in partnership with the local water utility sector

In June 2021, the Town Water Risk Reduction Program team engaged with over 260 stakeholders from across the local water utility sector in virtual and regional workshops. We discussed the problems stakeholders saw with the department's regulatory framework and approach and collaborated on potential solutions and a possible path forward. These engagements involved over 50 local water utilities and 20 other organisations including industry associations, joint organisations, private sector consultants, and co-regulators.

This draft roadmap reflects the outcomes of our engagement with the local water utility sector and our commitment to continue to work in partnership with the sector to improve the department's regulatory framework.



What do you think?

We are interested in your feedback on this draft roadmap. You can provide us feedback by [emailing us](#). Following your feedback we will update and publish a final version of the roadmap.

We are establishing several working groups where we understand collaborating with the sector to design our approach as this is the best way to improve a particular component of the regulatory framework. For other components of the regulatory framework, we will develop an approach to the improvements and seek feedback from the sector through a public consultation process.

For all of our proposed changes to the regulatory framework, we will publish draft documents for public consultation and incorporate feedback before finalising our changes.

Information about how to register your interest to participate in a working group is available on our website [here](#).

Local water utility sector objectives

The local water utility sector includes local water utilities, the department, other co-regulators, industry associations, the private sector and other interested stakeholders.

Local water utilities are responsible for delivering safe, secure, sustainable and affordable water supply and sewerage services to 1.8 million people in regional NSW, protecting public health and the environment and supporting economic development and liveability.

The department is responsible for overseeing and supporting local water utilities in their delivery of safe, secure, sustainable and affordable services and management of water service risks. To achieve this, the department:

- sets policy
- regulates
- monitors performances
- administers infrastructure funding, and
- provides advice and support to local water utilities.

Co-regulators including NSW Health, the NSW Environment Protection Authority, the Office of Local Government, the Natural Resource Access Regulator, Dam Safety NSW and the Independent Pricing and Regulatory Tribunal of NSW are responsible for overseeing and supporting local water utilities within their own regulatory frameworks.

Local water utilities, the department and other co-regulators will continue to ensure:

- Safe and secure water supply to protect public health and the environment, and to support economic development and liveability.
- Effective sewerage services to protect public health and the environment, and to support economic development and liveability.
- Services that meet customer needs, expectations and preferences.
- Financially sustainable water utilities with efficient and affordable pricing for services.

Regulatory framework

The department's three key regulatory functions and activities are in the areas of strategic planning, technical assessment and approvals, and performance monitoring. We have developed a shared understanding with the local water sector of where we need to make changes to improve our regulatory framework. We also commit to improving our approach as a regulator. In this Roadmap document, for each of the three key regulatory functions, and our better regulation approach, we identify:

- What does success look like?
- What have we heard?
- What will we do to improve?

We also clearly state the steps to achieve each component of our improved regulatory framework.

Strategic planning

- Requiring local water utilities to prepare and implement strategic planning.
- Promoting best practice pricing, including assessing eligibility for dividend payments to councils' general revenue.

Technical assessment and approvals

- Approvals under section 60 of the *Local Government Act 1993*.
- Inspections of water and sewerage systems.
- Concurrence of Liquid Trade Waste approvals.
- Technical support for local water utilities during emergencies and incidents.

Performance monitoring

- Risk, performance and compliance monitoring.
- Inspections of water and sewerage systems.
- Collection of data and information from local water utilities.
- Publishing data and information collected from local water utilities.
- Analysis and response of local water utilities performance over time.
- Data coordinator for local water utilities' Australian Government reporting obligations.

Better regulation

Regulatory objectives and principles

We know we need to improve the way we regulate and support local water utilities.

Following our engagement with the local water utility sector we have identified a number of regulatory objectives for the department and principles of how the department should carry out our regulatory functions and engage with the sector.

We have developed regulatory objectives and principles to represent a shared understanding with the local water utility sector. However, we intend to test this further with the sector in the coming months through consultation with the local water utility sector and wider public consultation.

Regulatory objectives

The department's regulatory objectives are:

- driving the supply of safe and secure water and sewerage services
- supporting the protection of public health
- supporting the protection of the environment
- promoting the principles of integrated water cycle management to support liveability
- protecting the interests of customers and the community.

We will achieve our regulatory objectives by requiring and enabling local water utilities to:

- implement robust, evidence-based strategic planning for water supply and sewerage services that applies the principles of integrated water cycle management
- manage local water utility risks in strategic and effective ways
- implement operational risk management, including sound and safe operation and maintenance of systems
- implement robust emergency and incident management
- make fit for purpose infrastructure investments
- protect and promote the interests of customers through efficient and affordable pricing
- be financially sustainable.

Other NSW Government regulators have their own regulatory objectives.

Regulatory principles

The department's regulatory principles support and influence the way we engage with local water utilities and perform our regulatory functions.

We will focus on outcomes and be flexible and proportionate

When developing and implementing our regulatory approach for local water utilities, we will focus on outcomes and be flexible to meet the different needs of local water utilities in our assessment of how local water utilities achieve the required outcomes.

We will prioritise according to risk

We will allocate our resources to deliver the greatest benefit, while prioritising the biggest risks to public health, customers or the environment.

We will be fair and accept accountability

We will work in partnership with the local water utility sector to ensure that our approach to regulation and support is relevant and targeted.

We will seek information and input from local water utilities before making key decisions and explain our decisions once we make them. We will be answerable for our decisions, including providing mechanisms for our decisions to be reviewed.

We will set clear timelines for our regulatory processes and keep local water utilities updated on how their matters with us are progressing. We will publicly report on how we are meeting our timelines.

We will be transparent

We will publish our policies, priorities and expectations and provide information that explains what local water utilities can expect from our regulatory processes.

We will use plain language, be clear and concise in our communications.

We will ensure there is a clear distinction between our advice and support functions, our funding and our regulatory functions.

We will work collaboratively with other regulators

We will work collaboratively with co-regulators of local water utilities to ensure we have clear roles and responsibilities and that we communicate effectively with each other and local water utilities.

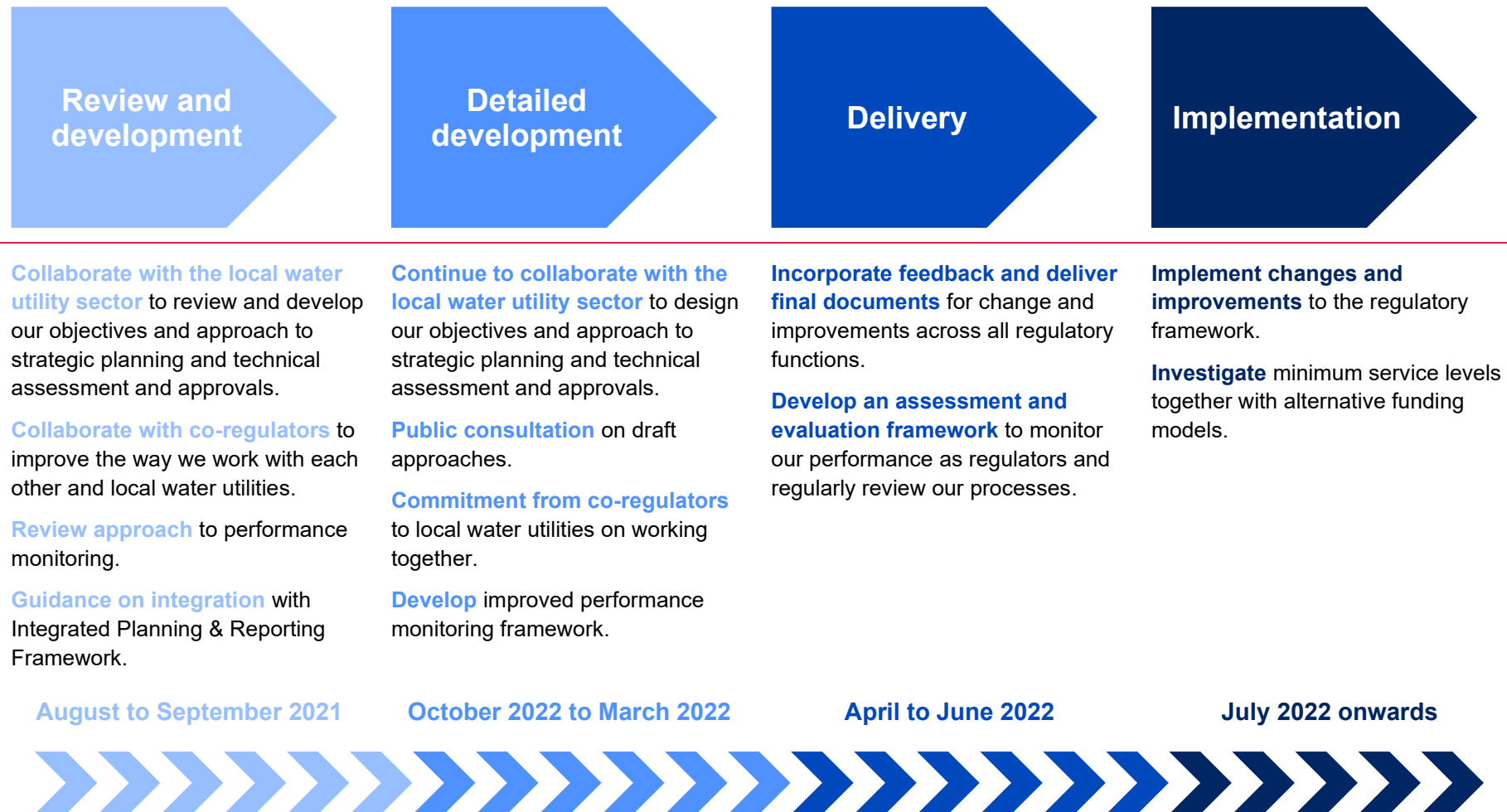
We will actively seek feedback and opportunities to improve

We will listen and be responsive to requests and feedback.

We will monitor and evaluate our performance as regulators, including actively seeking feedback from local water utilities, co-regulators and other stakeholders. We will use this information to improve our regulatory approach and processes.

Roadmap to an improved regulatory framework

This roadmap to an improved regulatory framework for local water utilities was developed in partnership with the local water utility sector and sets out the actions the department will undertake to improve the regulatory framework for local water utilities.



Strategic planning

The department's strategic planning regulatory functions include:

- Requiring local water utilities to prepare and implement strategic planning as part of the Best-Practice Management of Water Supply and Sewerage Guidelines issued under section 409(6) of the Local Government Act.
- Promoting best practice pricing, including assessing eligibility for dividend payments to councils' general revenue.

Our planned changes to the department's strategic planning regulatory function include:

- Changing our approach by setting clear objectives, scope, expectations for strategic planning and provide guidance for local water utilities on how to meet the requirements.
- Changing our assessment process to one that is flexible and supports adaptive strategic planning and is clear, transparent and more accountable.
- Improving the secure yield analysis guidelines, methods and enable utilities access to data
- Improving the integration of local water utilities' strategic planning with the *Integrated Planning and Reporting Framework*.
- Investigate minimum service levels with alternative funding models.

What does success look like?

All local water utilities are leading robust, evidence-based strategic planning of their water services so that the utility and its customers can have confidence that key risks are identified and managed, challenges anticipated and that the expectations of their customers and regulators are consistently achieved.

Local water utilities' strategic planning is fit for purpose, ready to be actively used to guide decision-making and integrated with councils' strategic planning for its other services and functions as relevant.

Local water utilities' strategic planning applies the principles of integrated water cycle management to optimise the multiple benefits of water in urban settings. Integrated water cycle management aims to manage the entire urban water cycle by integrating water, sewerage and stormwater services to contribute to the full suite of water security, public health, environmental and urban amenity outcomes that the community seeks.

Local water utilities' strategic planning is recognised by the department in the Government's decision-making and its planning. With both local water utilities and the department committed to strengthening the links between local, regional and State level planning, data and models shared between levels of government.

There is clear communication to local water utilities of the department's regulatory objectives and performance expectations and then a transparent process to confirm that these expectations are applied in local water utilities' strategic planning.

What have we heard?

In our engagement with the local water utilities sector, we heard that local water utilities consider the current checklist-based regulatory framework for local water utility strategic planning is onerous, expensive, complicated and inflexible.

We also heard the department should improve regulation and support of local water utilities strategic planning by:

- Working with the sector to move to an approach of setting clear objectives and outcomes-based requirements for local water utility strategic planning.

- Regulating to enable adaptive strategic planning and decision-making, and to prioritise the allocation of resources based on risk and context rather than taking a one-size-fits-all approach.
- Regulators coordinating to review local water utility strategies so that utilities can be confident feedback reflects an enduring, whole-of-government position.
- Better integration of state, regional and local strategic planning.
- Building sector capacity and resilience.
- Improving quality of and access to state-wide data collection, modelling and information sharing.

The department should provide greater clarity around minimum service levels, agreed service levels, pricing and affordability.

What will we do to improve?

Our planned changes to the department's strategic planning regulatory function and expected timelines are provided in Table 1.

Table 1: Planned changes to the department's strategic planning regulatory function

Planned changes to the department's strategic planning regulatory function	
Change our approach by setting clear objectives, scope, expectations for strategic planning and provide guidance for local water utilities on how to meet the requirements	
We will collaborate with the local water utility sector to design a set of clear outcomes-focused requirements for strategic planning to replace the 'Integrated Water Cycle Management Strategy Check List' as the primary source of regulatory expectations and guidance for local water utilities' strategic planning. Potential outcomes areas that local water utilities would need to address include: <ul style="list-style-type: none"> • setting of objectives, service levels, performance standards • applying integrated water cycle management principles • secure yield and demand analysis • asset management • financial planning and pricing • drought and emergency resilience • workforce planning • community engagement • customer rights and protection. 	December 2021
We will review expectations for financial planning and pricing outcomes such as fixed and usage charge targets and ensuring holistic consideration of capital and operational costs for infrastructure options.	July 2022
We will develop and publish guidance material to meet outcomes focused requirements for strategic planning. We will provide clarity about assumptions to use when data or information is not available.	July 2022 (Draft for public consultation March 2022)
Change our assessment process to one that is flexible and supports adaptive strategic planning and is clear, transparent and more accountable	

Planned changes to the department's strategic planning regulatory function	
<p>We will collaborate with the local water utility sector to design a regulatory assessment process for strategic planning that:</p> <ul style="list-style-type: none"> • Focusses on assessing robustness and fit for purpose strategic planning, rather than requiring and overseeing preparation of strategic plans at arbitrarily set intervals (to support adaptive planning and decision-making where local water utilities focus on strategic risks and challenges when and how they present themselves). • Monitors the implementation of strategic planning outcomes. • Has clear assessment criteria that needs to be met and a clear process for how the department will assess plans against that criteria. • Is flexible so that local water utilities can meet strategic planning outcomes, taking account of the different needs of local water utilities. • Is proportionate and risk-based, taking into account the challenges faced by the local water utility, the risk profile of its systems, and its organisational maturity. • Applies and implements our regulatory principles, resulting in clear, transparent and timely assessments that provide clear reasons for decisions. 	<p>July 2022 (Draft for public consultation March 2022)</p>
<p>We will design an internal assessment process and data management system and investigate how we resource the implementation of our regulatory approach.</p>	<p>July 2022</p>
Improve the secure yield analysis guidelines, methods and access to data	
<p>We will publish a proposed timetable for the department's open data framework to enable public access to models and model outputs, including regional water strategy data that is relevant and useful for local water utility strategic planning.</p>	<p>September 2021</p>
<p>We will review the department's local water utility secure yield analysis guidelines, methods and data sets to ensure they are robust and incorporate the department's regional water strategies' water security and climate change modelling.</p>	<p>March 2022 (Draft for public consultation December 2021)</p>
Improve the integration of local water utilities strategic planning with the <i>Integrated Planning and Reporting Framework</i>	
<p>We will identify the barriers to integrating local water utilities strategic planning with councils' Integrated Performance & Reporting (IP&R) framework and provide guidance about how councils can improve integration in the forthcoming IP&R framework cycle (due for completion by all councils by 30 June 2022).</p>	<p>September 2021</p>
<p>We will, in collaboration with the Office of Local Government, councils and the local water utility sector, develop an approach so that the IP&R Framework can be used as a vehicle for an outcomes-based approach to local water utility strategic planning.</p>	<p>July 2022</p>
Improve the enablers that help local water utilities deliver the best possible services to their customers and meet regulatory requirements	

Planned changes to the department's strategic planning regulatory function	
We will investigate options to enhance technical support for individual utilities and target support to the ones that most need it.	September 2022
Investigate minimum service levels with alternative funding models	
We will investigate minimum service levels together with alternative funding models. Including, whether and how to set clear minimum service levels for water security, water quality and environmental outcomes, and the funding arrangements needed to support implementation.	September 2022

Technical assessment and approvals

The technical assessment and approvals regulatory functions and activities include:

- Approvals under section 60 of the *Local Government Act 1993*.
- Inspections of water and sewerage systems under sections 60 and 61 of the *Local Government Act 1993*.
- Concurrence of Liquid Trade Waste approvals made by councils under s68 of the *Local Government Act 1993*.
- Technical support for local water utilities during emergencies and incidents.

Our planned changes to the department's technical assessment and approvals regulatory function include:

- Changing our approach by setting clear objectives, scope, expectations for approvals (Section 60, *Local Government Act 1993*) that focus on a due diligence technical assessment and provide greater certainty around what requires approval.
- Changing our approval requirements and processes so that they are proportionate and risk-based.
- Changing our infrastructure assessment process to one that is clear, transparent and accountable.
- Improving the way we enable local water utilities to manage technical and operational risks effectively and efficiently.
- Improving our enablers to help local water utilities deliver the best possible services to their customers and meet regulatory requirements.

We will maintain the existing risk-based trade waste management requirements that were recently reviewed and implemented by the department.

What does success look like?

Local water utilities' officers and their decision-makers, customers and regulators have confidence in water and sewerage infrastructure investments knowing that there was a transparent, independent assessment process of the design and that reasonable alternatives to manage risks and meet customers' expectations and opportunities for innovation were considered before the investment decision was locked in.

Local water utilities are responsible for ensuring that the design, construction and operation of their infrastructure is adequate to protect public health, public safety, customers and the environment and aligned with its customers' needs and expectations today and into the future.

The department is responsible for managing an independent, transparent due diligence or assurance process for water and sewerage infrastructure. Giving all parties confidence that water and sewerage infrastructure investments are ensured through an efficient process and are informed by robust design, taking account of risks in procurement, construction and operations phases as well as opportunities for innovation.

What have we heard?

In our engagement with the local water utilities sector, we heard that the department should streamline infrastructure assessment and approvals processes by:

- Setting clear objectives, scope, expectations for local water utilities for infrastructure approvals (Section 60, *Local Government Act 1993*), including ensuring there is greater clarity around what requires approval.

- Taking a more collaborative approach as currently decisions are made with little or no consultation, an adherence to outdated approaches and technologies, little accountability for checks and balances, and no attempt to understand local issues.
- Focussing on a “due diligence” infrastructure assessment, including the management of risk associated with procurement of large infrastructure, and take account of local water utilities’ ability to manage risk.
- Considering opportunities for incorporating ‘exempt and complying’ principles in review of infrastructure assessment and approvals processes to expedite delivery.
- Considering whether infrastructure that is entirely or mostly funded by a local water utility should be subject to the same assessment and approval process.

What will we do to improve?

Our planned changes to the department’s technical assessment and approvals regulatory function and expected timelines are provided in Table 2.

Table 2: Planned changes to the department’s technical assessment and approvals regulatory function

Planned changes to the department’s technical assessment and approvals regulatory function	
Change our approach by setting clear objectives, scope, expectations for approvals (Section 60, <i>Local Government Act 1993</i>) that focus on a due diligence technical assessment and provide certainty around what requires approval	
We will collaborate with the local water utility sector to design sector clear objectives and scope for infrastructure and scheme approvals under section 60 of the <i>Local Government Act 1993</i> that: <ul style="list-style-type: none"> • Focusses on a due diligence assessment, including further developing what outcomes/criteria the due diligence assessment should include. • Considers innovation and emerging technologies where appropriate. 	December 2021
We will develop clear criteria and processes to determine whether proposed infrastructure, schemes, or changes to existing infrastructure, schemes or their operation are subject to section 60 approvals to provide more certainty to local water utilities.	July 2022 (Draft for public consultation by March 2022)
Change our approval requirements and processes so that they are proportionate and risk based	
We will collaborate with the local water utility sector to design how due diligence assessment requirements and the assessment processes could be different, taking account of risk and how the utility proposes to manage risk, including: <ul style="list-style-type: none"> • Investigating whether approval could be given at earlier stages of the design and/or procurement process. • Considering opportunities for incorporating ‘exempt and complying’ principles. • Considering opportunities to enhance independence or timeliness, for example by using external expertise. 	December 2021
Change our infrastructure assessment process to one that is clear, transparent and accountable	
We will develop a regulatory assessment process that:	July 2022

Planned changes to the department's technical assessment and approvals regulatory function

- | | |
|---|---|
| <ul style="list-style-type: none"> • Provide clear assessment criteria that need to be met and a clear process to ensure objective assessment including clear service standards and timeframes for decision making. • Provides clear reasons for the assessment decisions. • Apply and implements our regulatory principles, resulting in unambiguous, transparent and timely assessments that provide clear reasons and in a collaborative approach to local water utilities' strategic planning. • Establish a process for local water utilities to have the regulatory assessment decisions reviewed, if needed. | (Draft for public consultation by March 2022) |
|---|---|

Improve the way we enable local water utilities to manage technical and operational risks effectively and efficiently

We will develop in consultation with the local water utility sector, clearer objectives and expectations as part of an outcomes-focused and risk-based approach to the department's inspections of water and sewerage systems.	March 2022
<p>We will collaborate with the local water utility sector to design clearer and outcomes-focused requirements for local water utilities to have in place emergency and incident management systems supported by guidance material and develop an appropriate regulatory assessment and monitoring process based on our regulatory principles.</p> <p>Any new requirements must consider the existing requirements under the Drinking Water Management System (NSW Health), Recycled Water Quality Management System (the department) and Pollution Incident Response Management Plan (NSW EPA).</p>	March 2022
We will collaborate with the local water utility sector to design an escalation framework to guide utilities in managing emergencies and incidents, as well as to guide the support provided by the department and other agencies. This is likely to incorporate a mechanism for utilities to self-assess their incident management capacity.	July 2022
We will maintain the existing risk-based trade waste management requirements that were recently reviewed and implemented by the department.	Complete
Improve our enablers to help local water utilities deliver the best possible services to their customers and meet regulatory requirements	
We will investigate opportunities for ongoing collaboration about innovation and best practice in water and sewerage infrastructure design and delivery to support our regulatory objectives.	September 2022

Performance monitoring

The performance monitoring regulatory functions include:

- risk, performance and compliance monitoring
- inspections of water and sewerage systems
- collection of data and information from local water utilities
- publishing data and information collected from local water utilities
- analysis and response of local water utilities performance over time
- data coordinator for local water utilities' Australian Government reporting obligations.

Our planned changes to the department's performance monitoring regulatory function include:

- Improve risk, performance and compliance monitoring to identify performance trends over time and strengthen local water utilities and the department's response to those changes.
- Change local water utility reporting requirements to ensure reporting is aligned to the needs of local water utilities, their customers and regulators.
- Monitor the department's performance as a regulator.
- Investigate options for an integrated approach to local water utility reporting to NSW government agencies.

We will continue as the data coordinator for local water utilities' obligations to report to the Bureau of Meteorology's Urban Water National Performance Report and the Australian Bureau of Statistics.

What does success look like?

Performance reporting provides local water utilities, and their customers and regulators with comprehensive and robust information on the risks and performance of the utility over time and relative to other utilities to inform good decision-making, as well as regulatory settings.

Information should be publicly available, timely and useful to assess risk, performance and compliance and assist in analysing trends and comparing their own utility's performance against others in the sector.

Local water utilities should provide information once which is then used by multiple regulators, agencies as well as publicly available.

The department should be clear how it uses the provided information and proactively respond to changes in performance revealed by that data.

What have we heard?

In our engagement with the local water utilities sector, we heard that the department should improve the performance and compliance monitoring of local water utilities by:

- Ensuring there is a consistent framework and logic around assessment, approvals and data collection.
- Moving to a more coordinated approach to reporting and compliance to ensure that information collected from local water utilities is appropriate and actually required.
- Reducing the complexity and demands of reporting.
- Reducing duplication across NSW Government agencies.

What will we do to improve?

Our planned changes to the department's performance monitoring regulatory function and expected timelines are provided in Table 4.

Table 3: Planned changes to the department's performance monitoring regulatory function

Planned changes to the department's performance monitoring regulatory function	
Improve risk, performance and compliance monitoring to identify performance trends over time and strengthen local water utilities and the department's response to those changes	
<p>We will develop in consultation with the local water utility sector an improved performance monitoring framework for local water utilities that includes:</p> <ul style="list-style-type: none"> • Clear objectives for collection of information and the department's monitoring of risks, performance and compliance. • A range of data and information sources, for example reporting of data and information by local water utilities, the department's inspections of water and sewerage systems, data and information collected by other regulators, feedback provided by customers and other stakeholders. • A transparent approach to assessing risks and performance over time. • A proactive approach to responding to changes in performance revealed by data and information and assisting local water utility officers and decision-makers to manage water security, water quality and environmental impact risks. 	March 2022
Change local water utility reporting requirements to ensure reporting is aligned to the needs of local water utilities, their customers and regulators	
<p>We will change the current risk, performance and compliance reporting requirements to:</p> <ul style="list-style-type: none"> • Remove performance and data reporting requirements where the department's requirements duplicate other regulators or government agencies' reporting requirements. • Ensure reporting requirements are more aligned with the information needs of local water utilities, their customers and regulators. • Provide a statement for utilities on why that information is required to enable the department to understand whether outcomes are achieved and to monitor performance trends and explain how it is used by the department. • Regularly publish easy to understand analysis on the risk, performance and compliance of local water utilities, to enable utility officers, those responsible for its governance and its customers to understand and respond to trends and comparing their own utility's performance against others in the sector. 	<p>March 2022</p> <p>(Draft for public consultation December 2021)</p>
We will consult with the local water utilities sector on potential new measures and requirements to track the effectiveness of the proposed new approach to strategic planning, as described above, to identify what data might be needed and how to collect it.	July 2022
We will investigate and test analytical tools that meet the needs of local water utilities to undertake their own comparison analysis of performance, risks and maturity.	July 2022

Planned changes to the department's performance monitoring regulatory function

We will continue as the data coordinator for local water utilities' obligations to report to the Bureau of Meteorology's Urban Water National Performance Report and the Australian Bureau of Statistics.

Ongoing

Monitor the department's performance as a regulator

We will develop a monitoring and evaluation framework to monitor our performance as regulators and regularly review our processes.

July 2022

Investigate options for an integrated approach to local water utility reporting to NSW government agencies

We will investigate options for an integrated approach to local water utility reporting to NSW Government agencies.

October 2022

Better regulation

We are committed to meeting our regulatory objectives, enabled by our regulatory principles.

Our planned changes to our approach as a regulator include:

- Clearly outline local water utility sector objectives, regulatory objectives and regulatory principles.
- Change the way we regulate and support local water utilities.
- Improve the way co-regulators work with each other and with local water utilities.

What does success look like?

Local water utilities, regulators and customers understand the objectives of the local water utility sector and their regulators' objectives.

Regulatory expectations are coordinated between water, public health, environment and local government regulation so that utilities have clear information on expectations and have sufficient information, skills and support to meet those expectations

Water, public health, environment and local government regulators commit to participate in council and local water utility processes and projects early so that councils and local water utilities know what they need to do as early as possible. Regulators have clear roles and responsibilities, including who takes the lead on issues, and communicate effectively with each other and local water utilities. Regulators have good relationships and share knowledge with each utility.

Local water utilities rightly expect that the department is clear in all communications when its acts in its regulatory, its funding or its advice and support roles.

The department allocates our resources to deliver the greatest benefit, or to focus on the biggest risks to public health, customers or the environment. The department has the resources and skills to be an effective regulator, strive to continuously improve and learn, and collaborates with the local water utilities sector to understand and address current and future challenges.

What have we heard?

In our engagement with the local water utilities sector, we heard that government processes for regulating local water utilities should be improved, noting the views of the local water utilities sector that:

- The absence of a nominated lead or coordinating regulator is problematic as it leads to too great a variability in approaches and objectives.
- All local water utilities need a clearer, more proportionate and consistent approach to regulation.
- The department should implement a risk-based approach to regulatory needs and compliance requirements.
- The department should demonstrate and implement a clear separation between its advice and support activities and its regulatory and compliance activities.
- The ongoing collaborative mechanisms between regulators and with local water utilities must improve.

What will we do to improve?

Our planned changes to the department's approach as a regulator and expected timelines are provided in Table 4.

Table 4: Planned changes to the department's approach as a regulator

Planned changes to the department's approach as a regulator**Clearly outline local water utility sector objectives, regulatory objectives and regulatory principles**

<p>This roadmap shares our common understanding of local water utility sector objectives, and the department's regulatory objectives and regulatory principles.</p> <p>We will review and publish these local water utility sector objectives, our regulatory objectives and our regulatory principles following feedback from the local water utility sector.</p>	October 2021
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Change the way we regulate and support local water utilities

<p>We will demonstrate and implement a clear separation between our advice and support functions and our regulatory functions.</p> <p>We will ensure we maintain or increase our local presence in regional NSW for both our advice and support functions and our regulatory functions.</p> <p>We will communicate to the sector how the department allocates resources to deliver the greatest benefit, or to focus on the biggest risks to public health, customers or the environment.</p>	March 2022
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Improve the way co-regulators work with each other and with local water utilities

<p>We will collaborate with co-regulators to agree on our roles and responsibilities, communication, frequency of meetings, who takes the lead on issues, how to resolve any disagreements or disputes.</p> <p>We will collaborate with co-regulators to make a clear commitment to the local water utility sector about what to expect from us as regulators, including roles and responsibilities, communication, participation in local water utility processes and projects, and the provision of information, support and advice.</p> <p>We will commence regular meetings of co-regulators both centrally and in regions to discuss and address local water utility risks.</p>	November 2021
<p>We will identify key uncertainties or duplications with regulatory processes for local water utilities across government and determine how to ensure certainty and remove duplication.</p> <p>We will identify the options for a designated coordinating or lead regulator either for local water utilities, for specific regulatory assessments or issues, or for specific regulatory functions.</p>	March 2022
<p>We will develop resources to inform, educate and support local water utilities to meet the expectations of their customers and regulators. We will continue to update and improve these resources to assist local water utilities.</p>	July 2022

Roles and responsibilities

Councils and local water utilities	Deliver safe, secure, efficient and affordable water and sewerage services to customers and communities, providing public health outcomes, and supporting economic development, liveability and the environment under the <i>Local Government Act 1993</i> and the <i>Water Management Act 2000</i> .
Department of Planning, Industry and Environment - Water	Oversee and support local water utilities in their delivery of safe, secure, sustainable and affordable services and management of water service risks by regulating and providing advice and support under the <i>Local Government Act 1993</i> and the <i>Water Management Act 2000</i> .
NSW Health	Protect public health by regulating drinking water suppliers, providing advice and support for the effective management of public health risks from water under the <i>Public Health Act 2010</i> .
NSW Environment Protection Authority	Protect the environment by supporting local water utilities and regulating the provision of sewerage services provided by local water utilities under the <i>Protection of the Environment Operations Act 1997</i> .
The Office of Local Government	Oversee council and local water utility governance, financial management and reporting under the <i>Local Government Act 1993</i> .
Natural Resource Access Regulator	Grant and manage water access licences and approvals for local water utilities under the <i>Water Management Act 2000</i> and the <i>Water Act 1912</i> .
Dam Safety NSW	Ensure the safety of all declared dams under <i>Dam Safety Act 2015</i> .
Independent Pricing and Regulatory Tribunal of NSW	Set the maximum prices that Central Coast Council, Essential Energy and WaterNSW for the Fish River Scheme, can charge for water and sewerage services under the <i>Independent Pricing and Regulatory Tribunal Act 1992</i> .

Enablers and supporting activities

The following are enablers and supporting activities for the department's regulatory framework for local water utilities:

- risk awareness
- advice and support
- data and information
- regional collaboration
- funding
- skills and training.

Risk awareness

- Ensure councils and local water utilities have a good awareness of their risks and risk management for their infrastructure, operations and services.
- Promote a community understanding of risks through water literacy programs that include having meaningful risk conversations.

Advice and support

- Ensure councils and local water utilities have sufficient information, skills and support to meet the expectations of their customers and regulators.
- Provide technical advice and support for local water utilities that do not have the scale or resources to access advice and support.
- Facilitating greater state government support, from both NSW Government agencies and state-owned corporations, is a specific focus area of the Town Water Risk Reduction Program.

Data and information

- Support and encourage local water utilities to collect and use data and information to inform their decision making.
- Share data developed by the department for the State Water Strategy and regional water strategies. Provide guidance for how to use the data.

Regional collaboration

- Regional collaboration is a specific focus area of the Town Water Risk Reduction Program.
- Provide clear guidance on potential opportunities and incentives for utilities to explore voluntary regional collaboration to reduce risks.
- Investigate and implement further options to encourage a greater focus on joint and regional solutions in utility strategic service planning and facilitate improved resource sharing between utilities.

Funding

- Funding for strategic planning and infrastructure to address high risks continues to be available to eligible local water utilities under the Safe and Secure Water Program.
- Alternative funding models, including community service obligations are being investigated within the Town Water Risk Reduction Program.

Skills and training

- Skills and training for the local water utility sector is a specific focus area of the Town Water Risk Reduction Program.

- Councils and local water utilities have the skills and training to meet expectations of their customers and regulators and manage risks.
- Regulators have appropriate skills and training for effective regulation of, and collaboration with, local water utilities.

About the Town Water Risk Reduction Program

The Town Water Risk Reduction Program is supporting local water utilities to manage safe, secure and sustainable water supply and sewerage services to regional communities across NSW. The program is taking a collaborative approach to improve the regulatory framework including Integrated Water Cycle Management Strategies. As well as addressing critical skill shortages, encouraging collaboration between utilities, facilitating greater State Government support and considering alternative funding models. Every local water utility faces unique challenges and risks. The Town Water Risk Reduction Program team are working in partnership with councils, local water utilities, government agencies and the broader sector to design and implement long term solutions to improve management of town water risks.

For more information about the Town Water Risk Reduction Program visit our [website](#) or [email us](#).

About local water utilities

Local water utilities deliver water supply and sewerage services to more than 1.8 million people in regional NSW (i.e. outside the areas of operation of Sydney Water Corporation and Hunter Water Corporation); protecting public health and the environment, and supporting economic development and liveability.

The vast majority (89) of NSW's local water utilities are either general purpose councils, which operate as financially separate to general local council operations, or special purpose county councils. Councils exercising water supply and/or sewerage functions do so under the *Local Government Act 1993*. Three local water utilities - Cobar Water Board, Essential Energy and WaterNSW for the Fish River Water Supply - operate as water supply authorities under the *Water Management Act 2000*. Central Coast Council exercises its functions under both the *Local Government Act 1993* and as a water supply authority under the *Water Management Act 2000*.

Local water utilities face challenging conditions, with drought, flood and climate variability all potentially affecting water availability. There is also significant variability in the geographic coverage and population trends in the areas covered by local water utilities, with service areas ranging from 285 km² to over 50,000 km² while populations range from 1,000 to over 300,000. Remoteness and low population density can contribute to cost disadvantages, revenue raising challenges and skills shortages, including in specialist water engineers and operators to maintain town water infrastructure. Some regional towns also need to provide for transient tourist population peaks and water for households that are not serviced by town water during extended dry periods. In 2019/20, local water utilities had an annual revenue of \$1.71 billion and combined infrastructure current replacement costs of \$31.1 billion.