

Town Water Risk Reduction Program—Program outline

Every person in NSW wherever they live has a right to safe drinking water and a secure water supply in their communities to build successful industries, support jobs growth and make our cities, towns and regions attractive places to live. The NSW Government in partnership with local water utilities and the wider water sector are collaborating on the Town Water Risk Reduction Program to identify long-term solutions to the challenges and risks to providing water supply and sewerage services in regional towns.

Councils and their local water utilities are responsible for ensuring the delivery of safe, secure, efficient and affordable water supply and sewerage services to more than 1.8 million people in regional NSW.

The NSW Government recognises that in providing these essential services, local water utilities can face a range of internal and external risks and challenges. As part of the Safe and Secure Water Program, in 2019 an inter-agency risk assessment of town water supply and sewerage systems in regional NSW was undertaken and found widespread risks to water quality, security and the environment. The 2020 NSW Auditor-General's performance audit on how the Department of Planning, Industry and Environment (the department) supports regional town water infrastructure recommended that the department improve oversight of and support for local water utilities' strategic urban water service planning, including planning for town water supply infrastructure.

The NSW Government also recognises that it has a role to play to address risks and challenges when regulating and supporting local water utilities. In December 2020, the department established the two-year Town Water Risk Reduction Program (TWRRP). The focus of this program is to work together with the sector to identify the most fundamental barriers within state and local government that prevent effective and strategic risk management by local water utilities, and to develop and implement long-term solutions to these barriers.

A central element of this program is its new partnership approach, which recognises and leverages the wealth of expertise within councils and their local water utilities and provides opportunities for these stakeholders to design and refine better solutions in collaboration with the department.

This program supports a broader set of changes being progressed by the department that are aimed at improving how we share, manage and use water. This includes the development of the state's first 20-year NSW Water Strategy and 12 regional water strategies that will bring together a wide range of tools and solutions to plan and manage the water needs in each NSW region over the next 20-40 years.

Our vision for town water

The department's overarching goal for this program is to work collaboratively with stakeholders to build a town water sector where:

- stakeholders, including the department, work together in partnership, sharing data and knowledge, consulting and collaborating with one another, and supporting each other where applicable
- local water utilities are supported to manage safe, secure and sustainable water supply and sewerage services in an efficient and customer-focused manner
- the regulation of local water utilities is focused on outcomes, based on risk and the maturity of local water utilities, and is fair and transparent. Regulators are accountable and well-coordinated.

Background

The NSW Government has already established the \$1 billion [Safe and Secure Water Program](#) to directly address specific water and sewerage risks in regional towns by providing co-funding to local water utilities for infrastructure and non-infrastructure solutions.

The Safe and Secure Water Program will help to reduce levels of risk in the sector. However, it does not target all the fundamental barriers within state and local government that can prevent utilities from managing risks effectively and strategically. Addressing these barriers is critical to ensuring that the sector moves towards a future where local water utilities can sustainably manage risks.

Key objective and focus

The key objective of this program is to develop and implement a new approach of working together that enables local water utilities to manage risks and priorities in town water systems more strategically and effectively and, as a result, reduce risks in regional NSW communities over time.

The identified barriers this program will help address

Based on previous reviews and feedback, the department has identified five key barriers the program will address to help reduce risks in town water systems and improve the performance of local water utilities:

1. **Scale and remoteness** - Utilities with small or spread-out customer bases face intrinsically higher per-person costs for delivering water and sewerage services and are sometimes unable to raise the revenue needed to manage their risks through service charges alone.
2. **Skills shortages** - Some utilities have difficulty attracting suitably qualified and experienced staff to fill critical roles within their business. In some cases, this is due to shortages of certain skill sets in the market, but in other cases it is simply that local water utilities cannot afford to offer the same remuneration or career progression opportunities as the metropolitan sector. Solutions to these issues must also consider the complex regulatory requirements and industry standards applicable to local water utilities.
3. **Sub-optimal strategic planning** - There is currently a lack of coordination between the various layers of strategic planning relevant to town water. For example, there is no formal mechanism for aligning the modelling, risk and options analyses of the department's regional water strategies with local water utilities' integrated water cycle management

strategies. There are also some instances where utilities may require more focused support than is currently available to prepare robust strategic service plans.

4. **Inefficiently targeted funding** - The department's current approach to funding local water utilities primarily involves risk-targeted capital grant programs such as the Safe and Secure Water Program. There are several issues with this approach. A key issue is that it does not fully account for differences in the capacity of utilities to fund solutions themselves through service charges. Also, targeting funding based on high priority risk can discourage utilities from taking action until risks become critical enough to be eligible for funding. Capital funding can also introduce a bias toward infrastructure solutions. It can discourage the consideration of whole-of-lifecycle cost of infrastructure and may not be a sustainable solution for utilities that require continuous funding support to be able to cover their ongoing costs, including maintaining and renewing infrastructure to an adequate standard.
5. **Inadequate regulatory mechanisms** - Regulations aimed at ensuring robust strategic planning and governance by local water utilities have not been as effective as they could be. In part, this is the result of the department's lack of clarity in its regulatory approach to overseeing and supporting local water utilities, as well as shortcomings in the transparency and accountability of its activities. Another issue is the absence of an effective mechanism for coordinating regulatory objectives and activities among co-regulators and other agencies.

The program

The NSW Government has started a conversation with local water utilities, government agencies and the broader sector about how to address these five barriers. The department proposes a set of high-level areas that the program will focus.

The stakeholders will provide their perspective on these high-level focus areas, including where options may need to be added, revised or even removed. The department will refine its proposed focus areas based on this input, and then establish a process for collaborating with the sector to design more detailed mechanisms and solutions. The proposed high-level areas of focus for the program are:

1. Improve the regulatory and support framework

Partner with the sector to develop and implement an improved regulatory framework for local water utility strategic planning, pricing and major asset approvals that is focused on outcomes, based on risk and the maturity of local water utilities, and is transparent, co-ordinated and accountable. Key improvements include:

- Substantially revise the department's approach to integrated water cycle management strategies and approvals of treatment infrastructure under section 60 of the *Local Government Act (NSW) 1993*. This will include considering long-held sector concerns and addressing the recommendations of the NSW Auditor-General's recent performance audit, focussing on making the necessary improvements to the department's processes and practices
- Investigate options for enhancing the protocols and policies related to local water utility drought resilience and incident response, including by drawing on learnings from recent incidents
- Enhance the monitoring of utility performance, risks and maturity. This will help the department regulate and support utilities in a way that is based on risk and the maturity of local water utilities

- Develop a more effective framework for coordinating intelligence, regulatory and policy objectives and activities between the department and its co-regulators. This includes developing public agreements between agencies outlining how they will work together and what utilities can expect
- Strengthen clarity and transparency around the regulatory framework by publishing simple, plain English guides, including materials to help relevant elected officials to understand their responsibilities.

2. Encourage greater collaboration

- Connect utilities facing similar issues so they can share insights and learnings and facilitate knowledge capture across the sector
- Provide clearer guidance on potential opportunities and incentives for utilities to explore regional collaboration
- 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
- Develop and implement mechanisms to ensure regional water strategies and utility strategic service planning inform each other and effectively align their modelling, risk and options analyses where these relate to town water supplies.

3. Encourage greater State Government support

- Explore how the capabilities and scale of state-owned corporations (SOCs) and the department could be better leveraged to help address risk and challenges local water utilities face, including opportunities for SOCs to work more closely with neighbouring utilities
- Develop a framework to better facilitate the provision of this in-kind support.

4. Review of skills shortages

- Partner with key stakeholders and co-regulators to design and conduct a review identifying critical skills shortages in the sector and options to address these. This would build on work already done by the sector in this area, and dovetail with the above workstream as well as any broader Vocational Education Training reforms.

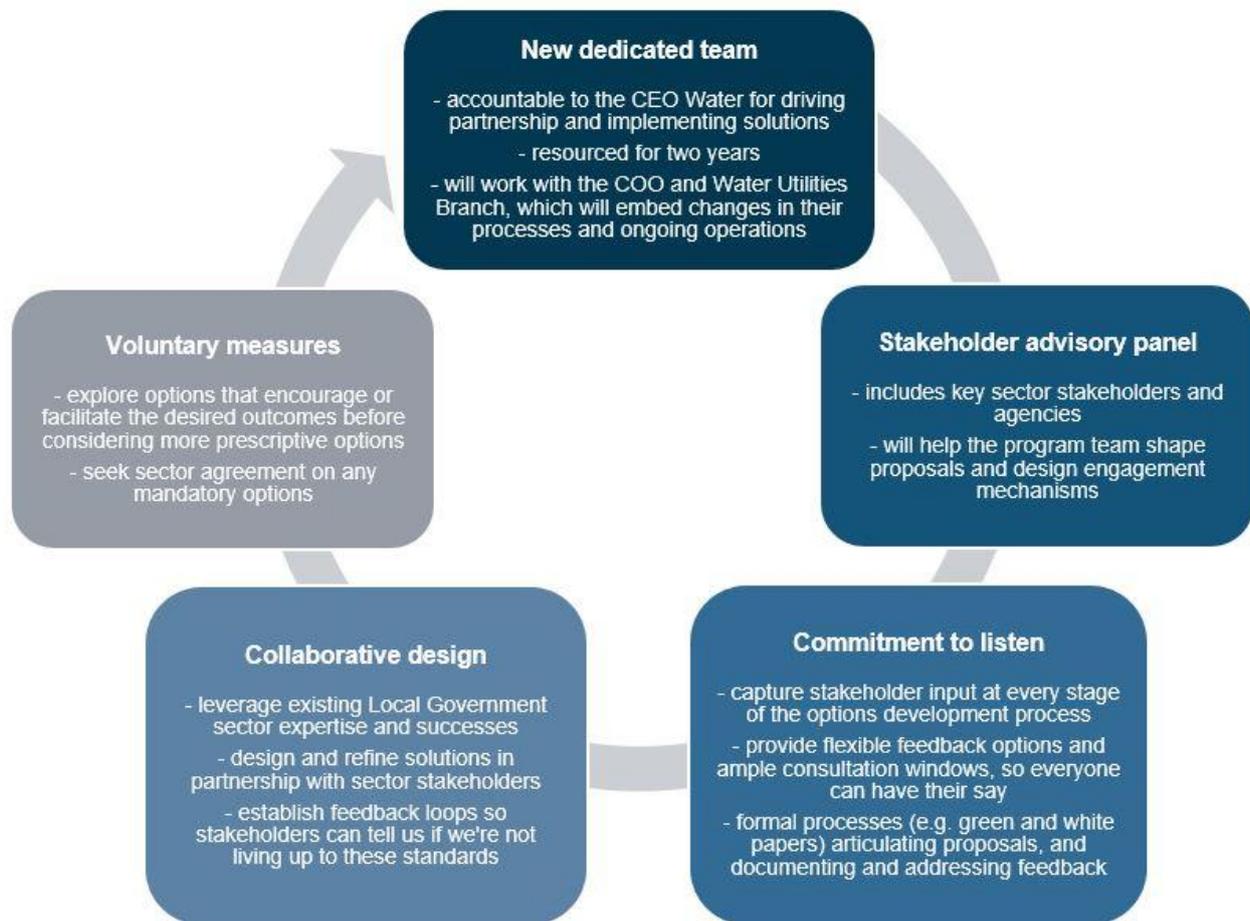
5. Investigate alternative funding models

- Working with the sector to explore the pros and cons of alternative funding models, including a needs-based community service obligation (CSO) funding model.

The implementation approach

The department has learned from the issues encountered by previous change programs and identified several areas where we can improve our approach. This includes engaging more meaningfully with stakeholders when designing and refining options, having a greater willingness to look inward at government's own regulatory and support activities, and ensuring the necessary follow through to implement recommended options.

The department will put these learnings at the centre of the Town Water Risk Reduction Program by adopting a robust partnership approach with the following key elements:



The Town Water Risk Reduction Program will be led by a new team within the department. The ongoing responsibility for regulating and supporting local water utilities will remain with the existing teams within the Water Utilities Branch. These teams will work closely with the new program team to implement any changes to their processes and activities that result from the program.

Have your say

We have incorporated feedback from industry into our program and would like to hear more about what you think about the program elements outlined in this fact sheet.

To have your say, simply email regional.town.water@dpi.nsw.gov.au.

At this stage we are primarily interested in getting input on the high-level program design, however there will be ample opportunities in the future for you to provide more detailed feedback on specific options and proposals. Information about future consultation windows will be available on the [program webpage](#).