

Appendix one – Response from agency



Planning,
Industry &
Environment

Our ref: BN20/4808
Your ref: D2016148/PA6660

Ms Margaret Crawford
Auditor-General for New South Wales
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Ms ^{Margaret}Crawford

Performance audit – Support for regional town water infrastructure

Thank you for your correspondence regarding the final report for the performance audit on the support provided by the Department for regional town water infrastructure.

The Department of Planning, Industry and Environment (the Department) acknowledges that a greater emphasis on strategic planning for town water supplies is needed and supports the audit recommendations. It agrees with the report's findings that there are opportunities to improve oversight of and support for councils' strategic urban water service planning, including planning for town water supply infrastructure.

Safe, secure and sustainable water supply and sewerage services provided by council local water utilities in an efficient and customer focussed manner are essential for community wellbeing and the provision of social and economic opportunities in regional NSW towns.

Since the formation of the Department and the recruitment of a CEO for the NSW Water Sector, the Department has made considerable progress towards building a long-term strategic planning framework of water management, reform and investment. As the audit recommends, this will ensure the Department has in place a strategic planning framework that integrates and aligns local, regional and state priorities and supports councils' strategic service and infrastructure planning for town water supplies in regional NSW.

The Department has commenced work on a State Water Strategy to outline the NSW Government's long-term vision and performance expectations for the sector. This first 20-year State Water Strategy will be part of a long-term strategic planning framework of water reform and investment that:

- recognises water as a finite resource, essential for life and economic prosperity;
- will put water on the same footing as other key state resources and services; and
- identifies water infrastructure as catalytic for place-making, in the same way as transport.

The State Water Strategy will reflect the purpose of the NSW Water Management Act (2000) and set the over-arching objectives, actions and strategic outcomes for the state's water resources and the water sector for the next 20 years. It will be underpinned by 12 regional water strategies, and two metropolitan strategies - the Greater Sydney Water Strategy and the Lower Hunter Water Security Plan. Together, these strategies will make up the Water Strategy Program and the strategic planning framework for water management in NSW.

The State Water Strategy will reflect the recommendations of the audit report and identify outcomes and actions to support their achievement.

Public exhibition of the State Water Strategy is scheduled for early 2021; the Greater Sydney Water Strategy is to be released for public consultation by mid-2021, and the Lower Hunter Water Security Plan by the end of 2021. The 12 regional water strategies are being progressively developed, with all strategies to be published by the end of 2021.

Regional water strategies will set out a long-term 'roadmap' of actions in their areas to deliver five objectives:

- deliver and manage water for local communities;
- enable economic prosperity;
- recognise and protect Aboriginal cultural values and rights;
- protect and enhance the environment; and
- affordability - identify least cost policy and infrastructure options.

Councils are being involved in the development of the regional water strategies and the consideration of options, including infrastructure options to address water security, quality and environmental risks and priorities.

The Department will continue to work with councils to ensure their strategic service planning for town water supplies and the Department's regional water strategies can fully leverage each other, including by:

- facilitating coordinated risk and options analysis across councils' strategic service planning and regional water strategies to ensure strategies inform each other and efficiently align solutions to town water risks;
- encouraging and supporting the development of regional town water strategies led by Joint Organisations of Councils;
- where possible and suitable, for sensitivity analysis and stress testing, providing access to the climate and water data and modelling outputs of the regional water strategies; and
- developing a best-practice approach to modelling climate impacts on water security and incorporate this approach across departmental planning and councils strategic urban water service planning.

The Department will continue to work with the local government sector and other regulators on ways to improve and support councils' ability to manage strategic urban water priorities and risks and reduce existing risks to tolerable levels.

Despite its limited legislative and regulatory authority, the Department developed and has been implementing its predominantly voluntary, best practice water supply and sewerage management framework under section 409 of the *Local Government Act (NSW) 1993*. This framework constitutes a holistic system for the support and oversight of strategic service planning, pricing, performance reporting and technical considerations.

Effectiveness of this framework could be improved by providing the Department with greater authority to set best practice management policies and enforce their requirements. Importantly, the Department recognises that a critical part of addressing effectiveness will be about improving how the Department regulates, supports and engages with council local water utilities.

The Department is progressing improvements to its internal processes and data management and monitoring systems, especially with respect to its oversight of local water utility strategic service planning and risk management.

The Department is also considering broader improvements to its oversight and support functions, including:

- reviewing and making the regulatory framework for local water utility strategic urban water service planning and risk management more effective, proportionate, transparent, and accountable;

- improving engagement and formalising consultative arrangements with the sector and among regulators to address uncertainties and improve collaboration;
- enhancing the Department's local water utility performance, risk and maturity monitoring to inform proportionate regulation and support activities that help build a better performance culture;
- working with the sector to identify critical skills shortages in the sector and co-designing options to address these;
- facilitating greater support for councils to obtain value-for-money strategic planning services, including through enabling joint or regional approaches and partnerships across utilities and agencies; and
- continuing to improve coordination between local water utility strategic service planning and the NSW Government's regional water strategies to ensure strategies inform each other and align solutions to town water risks.

Further, the Department will continue to implement the Safe and Secure Water Program. This program provides co-funding to councils to address water security, water quality and environmental impact risks in urban water systems across regional NSW.

To improve the Department's ability to identify risks and target funding to solutions to the highest priority risks, in October 2018, the Department re-designed the Safe and Secure Water Program. This re-design transitioned the program from an application-based program to a program based on comprehensive and systematic risk identification, prioritisation and monitoring. The Department assesses and prioritises all risks in urban water systems in regional NSW and, starting with the highest priority risks, works with councils to identify the best solution to address the risk and provides co-funding to implement the solution.

In addition, to further improve risk identification and targeting of government support, the Department established a funding stream that provides co-funding for the development of local water utility strategic service plans as well as where Joint Organisations of Councils lead the development of regional town water strategies. This will improve councils' strategic risk management and inform the identification of high priority risks and their solutions, including in a regional context.

The roll-out of the re-designed program from April 2019 has been constrained as a result of the NSW Government's focus on the emergency response to one of the worst droughts on record; assisting councils with avoiding acute water supply failure by committing over \$275 million to critical water infrastructure projects and town water carting for regional NSW. The infrastructure delivered during the drought is likely to mean that in several town water systems risk-based funding from the Safe and Secure Water Program will not be required. Despite this constraint, the Safe and Secure Water Program is providing funding for the development of 17 council strategic service plans, with a further 39 funding requests under assessment.

The Department has been working with local water utilities and key stakeholders to address the issues raised in the audit report.

If you have any questions, please contact Mr Jim Betts, CEO of the NSW Water Sector on 0448 762 851.

Yours sincerely

Jim Betts

Jim Betts

Secretary

15/9/2020

Once again, I'd like to record my appreciation for the professionalism of Audit Office staff, and note the strong alignment between your office's recommendations and the reform directions BWSB wishes to pursue.