



**WATER SERVICES**  
ASSOCIATION OF AUSTRALIA



# **Urban water governance in Australia**

**Submission to NZ Three Waters  
Review**

**October 2018**





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ASSOCIATION OF AUSTRALIA

## About WSAA

The Water Services Association of Australia (WSAA) is the peak body that supports the Australian urban water industry. Our members provide water and sewerage services to over 20 million customers in Australia and New Zealand and many of Australia's largest industrial and commercial enterprises.

WSAA facilitates collaboration, knowledge sharing, networking and cooperation within the urban water industry. The collegiate approach of its members has led to industry-wide advances to national water issues.

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# Executive Summary

## Key messages

- The New Zealand Government has identified a number of key challenges faced by its water sector.
- Australia has faced and, continues to face, many of the same challenges.
- Several decades of reform in Australia have generated a viable and resilient water sector capable of cost-effectively supporting the country's urban water supply needs in the long term.
- Underpinning this are governance and accountability through commercial business structures that provide customer reassurance about prices, management discipline over costs, and confidence in capital investment.
- The reform model has been successfully applied at the state and local government level in Australia, adopting a range of structural and regulatory models.

The New Zealand Government is considering approaches to improve the management of drinking water, stormwater and wastewater (three waters) to better support New Zealand's prosperity, health, safety and environment.

The initial Three Waters Review identified the New Zealand water sector in general is facing four key challenges<sup>1</sup>:

- risks to human health and the environment in parts of the country
- evidence of inadequate levels of central and local government compliance, monitoring and enforcement in some places
- capacity and capability issues relating to asset management and governance of water infrastructure and/or services, and
- funding and affordability – including those caused by:
  - community expectations/aspirations and regulatory requirements relating to water quality, treatment and management
  - a need to replace ageing infrastructure
  - increasing demand for water infrastructure in high-growth areas
  - shoring up three waters systems against climate change and natural hazards
  - delivering regional economic growth.

Urban water reform in Australia over the last three decades has improved the efficiency of the sector, improved customer outcomes, and enhanced the ability of water utilities to meet future challenges.

While States and Territories are predominantly responsible for urban water supply, a nationally led reform program provided a clear case for change and a roadmap with clear milestones for achievement.

<sup>1</sup> The Department of Internal Affairs (2018), *Three Waters Review: key points*, <https://www.dia.govt.nz/Three-waters-review>, accessed 31 July 2018

A range of operating models is in place across the country at the State and local government levels, but these are underpinned by a common set of principles, involving:

- sound governance arrangements including independent skilled boards
- separation of ownership, policy-making roles and regulatory functions
- supporting the long-term interests of customers through an independent pricing process to support full recovery of efficient costs
- a national framework for water quality.

Corporatisation was a central element of the reforms, bringing a commercial focus to the industry as major water utilities moved to operating at arm's length to government in return for clear accountability for outcomes.

Corporate structures have been shown to be effective and resilient in curbing costs, providing pricing transparency and supporting prudent investment.

In addition, drinking water quality has improved nationally as shown by the National Performance Report produced annually by the Bureau of Meteorology.

Implementing reform need not be seen as conflicting with local government interests – commercial models that achieve scale economies can operate under local government ownership and management or collaboration.

The 2004 National Water Initiative provides for transparent arrangements to subsidise services where regional services cannot provide water of adequate quality at a price that consumers can afford.

For example, Western Australia has adopted a whole of state model, with transparent community service obligation (CSO) payments supporting the cost of supplying remote and regional communities. States have also adopted a range of structural solutions:

- Victoria has rationalised regional water utilities to 13 state-owned statutory corporations, independent of local government. This combines sufficient economies of scale with a strong connection between water services and the local communities they serve.
- The Tasmanian approach has been to achieve scale in operations through amalgamating regional utilities under joint council ownership to deliver a program of asset upgrades.
- In South East Queensland, there are a number of commercial corporatised utilities, owned by local councils. Some large councils such as the Gold Coast operate their own water and wastewater businesses.

Table 1 highlights features of the range of models adopted in Australia against the challenges identified in the Three Waters Review.

NZ Concern	Characteristics	Australian Experience
Funding and Affordability	Funding capital expansion and replacement	Corporatised business model with appropriate capital structure allows for capital raising and servicing
	Affordable water services	Independent economic regulation supports cost control, rigorous capex analysis, and fair consumer prices Explicit CSOs provide pricing equality across regions with different costs
	Financial sustainability of water utilities	Appropriate capital structure and independent economic regulation protect long-term interests of utilities and consumers
Capacity and capability of asset management and governance	Maintenance of assets	Critical mass, access to capital and economic regulation underpin investment programs
	Catering for growth and demand volatility	An established water resource planning function creates greater certainty by considering longer-term water demand, supply sources and hydrological risk Skilled management and staff, and economies of scale provide for longer-term planning and less exposure to regional factors
	Professional skilled workforce	Economies of scale through amalgamation or collaboration allow for attracting and retaining skilled staff and sharing of expertise
Compliance, governance and enforcement	Utility Management	Economies of scale through amalgamation or collaboration allow for attracting and retaining skilled management
	Oversight and accountability	Independent skills-based boards and accountability provided by the corporatised business model
Risks to human health and environment	Protect drinking water quality	National, independently regulated drinking water quality guidelines, monitoring and reporting
	Minimise environmental discharges	Sewerage and stormwater management guidelines, monitoring and reporting

Table 1 - Solutions implemented by state/local governments to address Australia's water sector challenges

## 1.0 Australian water reform, delivery and management models

### Key messages

- Urban water reform in Australia over the last three decades has improved the efficiency of the sector, improved customer outcomes, and enhanced the ability of water utilities to meet future challenges.
- While States and Territories are predominantly responsible for urban water supply, a nationally led reform program provided a clear case for change and a roadmap with clear milestones for achievement.
- A range of operating models is in place across the country at the State and local government levels, but these are underpinned by a common set of principles, involving:
  - sound governance arrangements including independent skilled boards
  - separation of ownership and policy-making roles
  - an independent pricing process to support full recovery of efficient costs
  - a national framework for water quality.
- Corporatisation was a central element of the reforms, bringing a commercial focus to the industry as major water utilities moved to operating at arm's length to government in return for clear accountability for outcomes.
- The reform principles do not preclude application to local government utilities – the model has been successfully applied at the local government level in Australia, notably in Victoria, Queensland and Tasmania.
- Corporate structures have been shown to be effective and resilient in curbing costs, providing pricing transparency and supporting prudent investment.
- Drinking water quality has improved nationally as shown by the National Performance Report.

After many decades of government management and focus on catering for demand and growth, reform of the urban water sector in Australia since the mid-1990s has improved the efficiency of the sector, improved customer outcomes, and enhanced the ability of water utilities to meet future challenges.

### Box 1: Key facts about the Australian urban water sector<sup>1</sup>

- The urban water sector provides Australian cities and towns with drinking water, wastewater services and stormwater management.
- In 2014-15, the average household spent A\$1100 on urban water, wastewater and drainage services and consumed 189 kilolitres of potable water.
- The urban water sector is capital intensive — water and wastewater assets were valued at more than A\$160 billion in 2015-16, and investment in these assets has averaged about A\$5 billion over the past five years.
- Estimated revenue for water and wastewater service providers was about A\$16 billion in 2015-16.

1. Productivity Commission, *National Water Reform Inquiry Report*, December 2017, page 5

## 1.1 Development of the water sector

During the period 1900 to 1970, the urban water sector was characterised by the imperative of supplying and operating water and sewerage services to growing cities and towns.

Large institutions, usually in the form of government departments, typically provided vertically integrated services in capital cities, while rural and regional water services were generally the remit of small authorities or local governments.

This period is commonly referred to as 'a build and supply phase', with the core objective to ensure adequate supply, with less focus on prudence, efficiency and commercial financial management. Water authorities set their own prices and, sometimes, their own environmental standards. In building new dams and wastewater systems, they were often both the project proponent and the resource manager.

## 1.2 Recognising the need for change

By the early 1990s, governments had collectively recognised that the build and supply phase had catered for demand, but also resulted in:<sup>2,3</sup>

- government debt and financially unsustainable water authorities with little incentive to implement prudent service delivery at least cost
- capital assets built over the period 1900 and 1970 without economic or financial consideration reaching the end of their useful life
- inefficient water pricing and significant cross subsidies resulting in excessive consumption and the need to invest in capital upgrades, and
- inefficient irrigation areas producing low-value returns.

## 1.3 Competition Principles Agreement

The water sector was not alone in its approach to infrastructure development, pricing and management. Similar cost, demand management and financial performance issues were apparent in other sectors, such as electricity, telecommunications and ports. Reform to the water sector formed part of a wider competition reform program.

The *1995 Competition Principles Agreement* microeconomic reform (and later the *2006 Competition Infrastructure Reform Agreement*) is seen as the catalyst for transforming infrastructure ownership, management, pricing and compliance arrangements across the electricity, telecommunications and water sectors.

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<sup>2</sup> Doolan, J (2016), *The Australian Water Reform Journey An overview of three decades of policy, management and institutional transformation*, August 2016, p. 8

<sup>3</sup> Salisbury, Head and Groom (2017), *Australian Urban Water Reform Story with Detailed Case Study on New South Wales*, World Bank Group, p. 16

## Box 2: Competition Principles Agreement

As part of the 1995 Competition Principles Agreement, all Australian governments agreed to implement reform principles<sup>1</sup> that involved:

- a corporatisation model for public trading enterprises
- structural reform of public monopolies that would operate in competitive markets
- establishing independent price oversight
- establishing a competitive neutrality policy and complaints mechanism
- reporting and monitoring of progress, and
- pricing of government business services on a comparable basis with the private sector, including tax equivalent payments and debt guarantee fees.

The Commonwealth made a series of competition payments to state and territory governments, to provide an incentive to implement the reforms within the Federal Government's seven-year timeframe by distributing efficiency gains across the community.

Within the framework of the *1995 Competition Principles Agreement*, the Council of Australian Governments (COAG), the peak intergovernmental forum in Australia, agreed upon a national water reform approach.<sup>4</sup> The key elements consisted of:

- institutional separation of service delivery from regulation
- state owned irrigation schemes to become commercially focused (government owned corporations or transferred to users to own and operate)
- consumption-based pricing, and
- moving towards full-cost recovery and the removal of cross-subsidies.

The structural separation of roles recognised the inherent conflict where a single public authority was concurrently the operator, regulator, and shareholder and also set prices.

### 1.3.1 Corporatisation

The most significant aspect of the Australian model of government business reform, which extended to water utilities, is the introduction of commercial business disciplines through corporatisation. The reforms of the 1990s have determined the structure of the Australian urban water industry today.

Water utilities moved from being government-run departments, to operating at arm's length from government under an independent board structure, accountable for their financial and operational performance.

Water businesses were mostly established as statutory corporations, but in some instances as corporations under Corporations Law. This subjected the businesses to similar disciplines as the private sector. Figure 1 sets out the typical governance framework for a corporatised utility.

<sup>4</sup> National Competition Council (1998), *Compendium of National Competition Policy Agreements – Second Edition*, June 1998, Australia

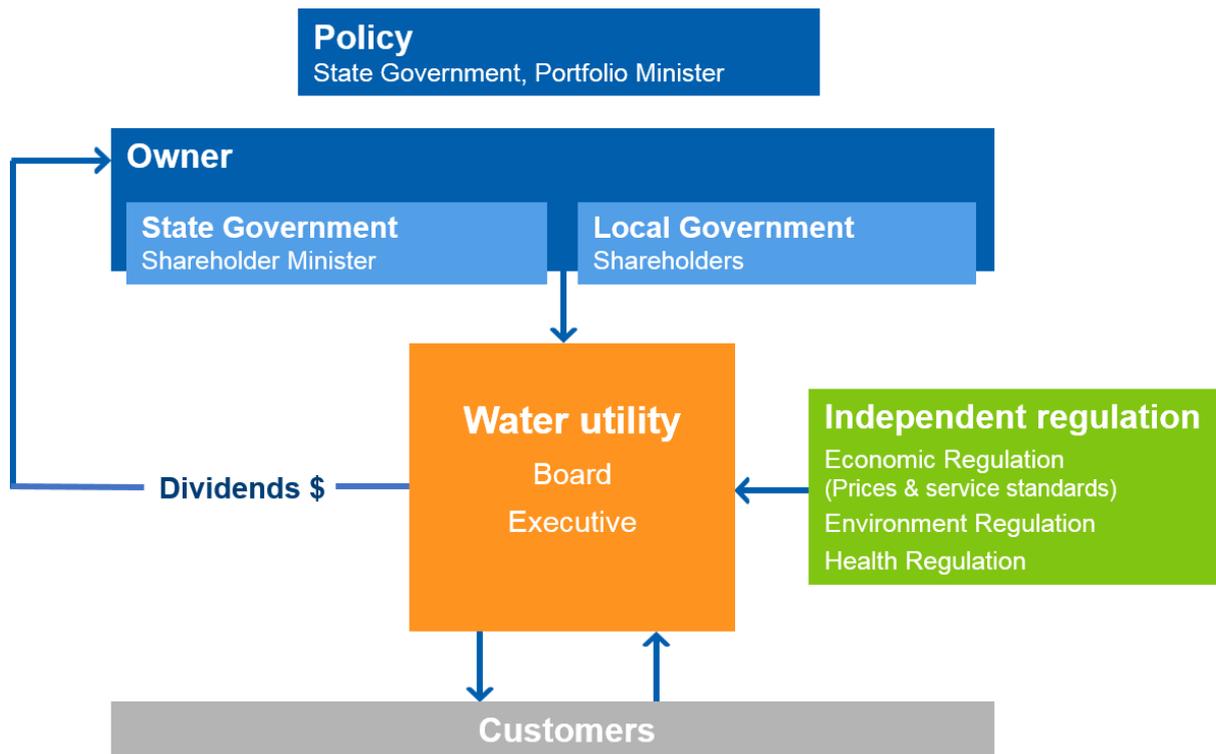


Figure 1: Typical governance framework for a corporatised utility

The main elements of the framework are:

- a direct relationship with the customers of the business to understand their needs and values
- independent skills-based boards – to provide governance, strategic direction and accountability for performance of the business encompassing financial, technical, marketing, risk management and compliance aspects
- cost-reflective pricing to provide efficient resource allocation and demand signals – water businesses are expected to cover the full cost of their activities including a return on the capital the community (through the government) has invested in the business
- efficient capital structures – allowing the business to access commercially priced debt to fund infrastructure that benefits current and future generations, while providing a dividend to the community for its investment in the water business
- maintaining an investment grade credit rating to allow for commercial debt to be raised reflecting the low risks of the water businesses and to be financially sustainable in the long term
- shareholder performance monitoring – accountability to ensure the business is delivering for customers today, meeting shareholder expectations, and is sustainable in the long term.

Section 2 provides further detail on the approach to application of the model in various jurisdictions in Australia. These demonstrate that the model and its underlying principles are able to be adopted in various forms to suit local needs and expectations, and are equally applicable to state and local government entities. A specific alternative governance model as adopted in Queensland is provided by Figure 7 in Section 2.4.

While in some sectors and countries, governments saw corporatisation as a stepping stone to privatisation, in the urban water sector corporatisation in Australia has proven to be a successful and enduring approach to efficient business operations in government ownership. It has driven cost efficiencies, customer focus, more rigorous capital evaluation, and management and board accountability.

The Productivity Commission found that in the first five years following the Competition Principles Agreement, Governments had made substantial progress in creating a more commercial environment for government trading entities. Most had dividend ratios that were generally comparable to those of private companies operating in similar markets, with provisions for tax-equivalent payments, debt guarantee fees and payments for community service obligations<sup>5</sup>. There is also evidence that the corporatisation model delivered improvements in business performance in the water sector, with an average annual growth rate of industry operating profit before tax of 25 per cent and an industry rate of return of 5.5 per cent<sup>6</sup>.

Seven years later, in the last such monitoring report undertaken by the Productivity Commission, average return on assets in the water sector had remained relatively stable at 4.9 per cent, and the majority of water utilities were delivering dividend returns to government shareholders<sup>7</sup>.

WSAA undertook a “financial stocktake” of 17 urban water utilities in 2017. While it identified areas of recommended improvement in regulatory outcomes, it also found that the majority of businesses maintained commercially appropriate capital structures, with investment grade debt to regulatory asset base ratios (see chart in Figure 2 with utility names withheld).



Figure 2: Debt to regulatory asset base, urban water utilities 2017, WSAA

<sup>5</sup> Productivity Commission, *Financial Performance of Government Trading Enterprises 1995-96 to 1999-00*, Box 1.  
<sup>6</sup> Productivity Commission, *Financial Performance of Government Trading Enterprises 1995-96 to 1999-00*, page 110.  
<sup>7</sup> Productivity Commission, *Financial Performance of Government Trading Enterprises 2004-05 to 2006-07*, page 105.

### 1.3.2 Independent regulation

As set out in Figure 1, independent regulation is another important feature of the framework. This includes health regulation (see Section 3), environmental regulation and economic regulation.

While water businesses were set up as commercial enterprises, they remained monopoly providers with little commercial pressure to maintain cost disciplines, scrutinise capital investment, and ensure that their prices reflect efficient costs. Without tradeable equity, government shareholders have limited ability to demand a market return on their invested capital. As such, economic regulation is a surrogate for the market pressure provided by competition.

Economic regulation provides assurance to customers that the prices they pay for water are reasonable and guards against implicit price changes arising from reductions in service levels. For businesses, regulation provides the discipline to manage costs and gives revenue certainty to support a forward investment program.

#### Box 3: Economic regulation

All Australian states and territories have created independent economic regulators to improve water sector funding, and where possible, incrementally move towards full-cost recovery prices. However, the price remit of the economic regulator varies between jurisdictions (Table 1):

In NSW, Victoria, South Australia, Tasmania and the Australian Capital Territory (ACT), the respective economic regulators determine regulated price paths, typically for four or five-year periods.

In Western Australia, the Northern Territory and parts of Queensland the state Government determines future water prices after receiving non-binding advice from the independent economic regulator.

In South East Queensland (SEQ) water prices are determined by the respective service provider.

	NSW	VIC	QLD	WA	SA	NT	TAS	ACT
Regulator	IPART	ESC	QCA	ERAWA	ECOSA	Utilities Commission	OTTER	ICRC
Does regulator set price	Yes <sup>a</sup>	Yes	No <sup>b</sup>	No <sup>c</sup>	Yes	No <sup>c</sup>	Yes	Yes

Table 2 - Jurisdictional comparison — economic regulation of water utilities

<sup>a</sup> Except regional water services provided by local governments; <sup>b</sup> The QCA provides advice to the Queensland Government for bulk water prices, but has no role in determining retail urban water prices. The QCA has historically undertaken ad-hoc price monitoring for South East Queensland.; <sup>c</sup> Government directive from economic advice for water prices.

Note: IPART: Independent Pricing and Regulatory Tribunal, ESC: Essential Services Commission, QCA: Queensland Competition Authority, ERAWA: Economic Regulation Authority Western Australia, ECOSA: Essential Service Commission of South Australia, OTTER: Office of the Tasmanian Economic Regulator, ICRC: Independent Competition and Regulatory Commission

Sources: <https://www.ipart.nsw.gov.au/Home/Industries/Water/Setting-water-prices/Current-water-prices>, <http://www.esc.vic.gov.au/water/consumer-information/customer-enquiries-complaints/>, <http://www.qca.org.au/Water>, <https://www.erawa.com.au/>, <http://www.escosa.sa.gov.au/industry/water/overview/water-overview>, <http://www.utilicom.nt.gov.au/WaterAndSewerage/Pages/Pricing.aspx>, <http://www.energyregulator.tas.gov.au/domino/otter.nsf/water-v/000>, <http://www.icrc.act.gov.au/water-and-sewerage/inquiries-and-investigations/>

Economic regulation is not unique to Australia or the water sector, and is widely adopted where monopoly service providers service a broad customer base:

- nationally, the Australian Competition and Consumer Commission has a price monitoring role in a number of industries including: airports, ports, telecommunications, and sets prices for some postal services and specifically declared nationally significant infrastructure
- states and territories have their own economic regulatory agencies (see Box 3)
- regulators are a key feature of markets in other countries, such as Britain, where Ofwat regulates prices and monitors service standards in the urban water sector.

WSAA supports a consistent framework of economic regulation as it protects the long-term interests of consumers by providing independent assurance that prices are fair and efficient. Table 2 presents the key characteristics of an effective regulatory environment.

<b>Establishing regulation which is independent from Governments</b>	This is necessary to ensure regulators are free from undue influence that could compromise regulatory outcomes. It is also important that regulators can determine prices rather than just recommend.
<b>Setting clear objectives for regulators to act in the long-term interests of customers</b>	Lack of clarity in objectives leads to inconsistency in decision making and lack of accountability.
<b>Establishing incentives for productivity and innovation</b>	Productivity and innovation are necessary for utilities to drive further efficiency gains. In addition, future efficiency and innovation will be driven in part by greater private involvement in the water industry and by adopting new business models.
<b>Assessment of financial viability to protect the long-term interests of customers</b>	The sector needs to be financially sustainable to maintain service levels over the longer term. Regulators need to incorporate financial viability metrics into the price determination process.
<b>Strong and transparent customer engagement within the regulatory framework</b>	Utilities need to better understand customer needs and what drives customer value. It is critical that this understanding is part of the regulatory process.
<b>Merits review and appeal mechanisms for utilities and other stakeholders</b>	These are essential to ensure accountability of regulators for their decisions and are a precondition for further private involvement.

Table 2: Characteristics of an effective regulatory environment<sup>8</sup>

### 1.3.3 Community Service Obligations

The corporatised structure provides a framework and incentive for businesses to act commercially, but the reforms also recognised that governments may legitimately want to require water utilities to pursue broader social objectives. These might include:

- maintaining affordable prices in regional and remote areas that are expensive to service

<sup>8</sup> Better regulation for customers, WSAA position statement on improving economic regulation, August 2014

- adopting a smoothed price path towards full cost recovery pricing to avoid customer price shocks
- undertaking socially justified capital investment projects that would not be viable in their own right (although preferably not through capital grants)
- providing concessions to pensioners and the socially disadvantaged or
- providing social initiatives where a corporatised utility can do it more cost-effectively than government.

#### Box 4: Community Service Obligation payments

All Australian States and Territories adopt a similar definition of a CSO:

“A CSO arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sectors to generally undertake, or which it would only do commercially at higher prices.”<sup>1</sup>

The NWI recognised that some small communities may never be able to provide water services of adequate quality at a price that consumers can afford.

Transparent CSO payments should be adopted to meet the difference between the efficient cost and users’ assessed ability to pay.

In 2000, the Council of Australian Governments (COAG) reaffirmed the need for CSOs to be:

- transparent
- appropriately costed, and
- directly funded by government.

However, the approach to CSOs is not expected to extend to a competitive process for the delivery of CSOs, and governments are free to determine who should receive a CSO payment or subsidy.<sup>3</sup>

The use of CSOs promotes efficient resource allocation and improves public awareness of CSOs. For example, transparent and systematic CSO reporting helps to determine whether the prices charged by a government business reflect full cost attribution.<sup>4</sup>

The Productivity Commission recommends that subsidies are paid as CSOs rather than capital grants because<sup>5</sup> capital grants can:

- divert resources from public services, such as health and roads that are less suited to cost recovery through user charges than water and sewerage infrastructure
- reduce the degree of scrutiny applied to capital project evaluation, and
- potentially underprice services and lead to excessive demand.

1 Steering Committee on National Performance Monitoring of Government Trading Enterprises (1994), *Community Service Obligations: Some Definitional, Costing and Funding Issues*, Industry Commission, p. xi; 2 Industry Commission (1997), *Community Service Obligations: Policies and Practices of Australian Governments*, Information Paper, pp. 1-3; 3 National Competition Council (2002), *Assessment of governments’ progress in implementing the National Competition Policy and related reforms*, Volume one: Assessment, p. 2.17, August 2002, AusInfo, Canberra; 4 National Competition Council (2002), *Assessment of governments’ progress in implementing the National Competition Policy and related reforms*, Volume one: Assessment, p. 2.22, August 2002, AusInfo, Canberra; 5 Productivity Commission, *National Water Reform Inquiry Report*, December 2017, page 228.

In addition to water tariffs that are based on full direct cost recovery and consumption-based pricing, the water reform policy also sought to reduce the degree of cross-subsidisation and to make remaining subsidies explicit. This was through adopting the competition principle of competitive neutrality by using Community Service Obligation (CSO) Payments to service providers to fund non-commercial services in a range of contexts, including utilities and social services (Box 4).

#### 1.4 The National Water Initiative

The nationally led *1995 Competition Principles Agreement* reform described under Section 1.3 provided a clear case for change and a roadmap with clear milestones for achievement.

In 2004, progress towards water reforms was reviewed. This led to a further series of reforms under the National Water Initiative (NWI)<sup>9</sup>, characterised as a shared commitment by governments to increase the efficiency of Australia's water use, provide investment and supply security for rural and urban communities, and greater certainty for the environment<sup>10</sup>. With a significant focus on rural water, for the urban water sector the NWI was predominantly concerned with pricing reforms.

The National Water Commission (NWC) was established as the statutory body to oversee the water reforms and provide advice to COAG. The NWC assumed responsibility for assessing the States and Territories' performance on pricing reforms<sup>11</sup>.

The 2004 NWI required that the parties<sup>12</sup>:

- promote economically efficient and sustainable use of water resources, water infrastructure assets, and government resources
- ensure sufficient revenue streams to allow efficient delivery of the required services
- facilitate the efficient functioning of water markets, and
- give effect to the principles of user-pays and achieve pricing transparency in respect of water storage and delivery in irrigation systems and cost recovery for water planning and management.

The user pays principle was applied on the premise that accurate price signals are a good mechanism to efficiently allocate scarce resources. This results in long term lower consumer prices by avoiding inefficient investment. The NWI specifically provided for consumption-based pricing and full cost recovery (except for some small community services)<sup>13</sup> through:

- lower bound pricing – set to recover at least the efficient operational, maintenance and administrative costs, and competitive neutrality measures such as tax equivalents and debt charges

<sup>9</sup> Council of Australian Government (COAG) (2004), *Intergovernmental agreement on a National Water Initiative*. 25 June 2004, viewed 13 July 2018, <http://www.agriculture.gov.au/SiteCollectionDocuments/water/Intergovernmental-Agreement-on-a-national-water-initiative.pdf>

<sup>10</sup> Productivity Commission, *National Water Reform Inquiry Report*, December 2017, page 3.

<sup>11</sup> The NWC was disbanded in 2015 and its duties passed to the Productivity Commission, the Bureau of Meteorology and the Australian Bureau of Agricultural and Resources Economics and Sciences (ABARES).

<sup>12</sup> Council of Australian Government (COAG) (2004), *Intergovernmental agreement on a National Water Initiative*, clause 64, 25 June 2004, accessed 31 July 2018, <http://www.agriculture.gov.au/SiteCollectionDocuments/water/Intergovernmental-Agreement-on-a-national-water-initiative.pdf>

<sup>13</sup> *Ibid*, clauses 65-77.

- a move towards upper bound pricing – which should not exceed efficient costs plus a provision for the cost of asset consumption and capital (weighted average cost of capital), and
- public reporting of subsidies where full cost recovery is unlikely to be achieved in the long term.

A 2017 review of the National Water Initiative<sup>14</sup> found that corporatisation and the introduction of independent regulation had improved efficiency, increased the rigour and transparency of investment decisions and promoted more efficient pricing. Consumption based pricing, combined with awareness campaigns and restrictions where warranted, changed consumer behaviour and reduced water use.

The review also concluded in relation to the urban water sector that:

- governments needed to resist erosion of key aspects of the water sector model, as an ongoing commitment to water reform was required if gains were to be retained and built upon
- there was scope to improve the quality and consistency of economic regulation to promote the long-term interests of consumers and long-term viability of utilities
- further benefits from economies of scale could be achieved through either amalgamation of, or collaboration between, smaller local government water utilities
- the sector faced challenges in catering for population growth, increased urbanisation and changing community expectations in a timely and cost-effective manner, and
- jurisdictions could better plan for and facilitate decentralised approaches to providing water and wastewater services, such as onsite wastewater treatment and reuse, stormwater harvesting and local management of stormwater through urban design.

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<sup>14</sup> Productivity Commission, *National Water Reform Inquiry Report*, December 2017

## 2.0 Regional reform models

### Key messages

- The governance principles underpinning water reform have been implemented through a range of operating models across the country.
- In particular, different approaches have been applied to manage the challenges of financial viability and scale in regional areas.
- Implementing reform need not be seen as conflicting with local government interests – commercial models that achieve scale economies can operate under local government ownership and management or collaboration.
- The NWI provides for transparent arrangements to subsidise services where regional services cannot provide water of adequate quality at a price that consumers can afford.
- For example, Western Australian has adopted a whole of state model, with transparent community service obligation payments supporting the cost of supplying remote and regional communities.
- States have also adopted a range of structural solutions:
  - Victoria has rationalised regional water utilities to 13 state-owned statutory corporations, independent of local government. This combines sufficient economies of scale with a strong connection between water services and the local communities they serve.
  - The Tasmanian approach has been to achieve scale in operations through amalgamating regional utilities under joint council ownership to deliver a program of asset upgrades.
  - In South East Queensland, there are a number of commercial corporatised utilities, owned by local councils. Some large councils such as the Gold Coast operate their own water and wastewater businesses.

New Zealand has identified that it faces issues in terms of:

- capacity and capability of asset management and governance of water infrastructure and services, and
- funding and affordability, including pressures from increased and variable demand, climate and environmental factors.

The Australian approach has been to address these within the corporatisation model. It has proven itself to be versatile and has been applied to capital city and rural and regional urban water supply, with modifications as appropriate for local circumstances.

### 2.1 Delivery models are not one size fits all

States, Territories and local governments have implemented a range of urban water supply delivery models. For example, some utilities are vertically integrated from drinking water supply and reticulation, sewerage and some stormwater, such as in South Australia and Western Australia; while in others, there has been structural separation between bulk water supply, distribution and retail functions —such as in Sydney and Melbourne (Figure 3).

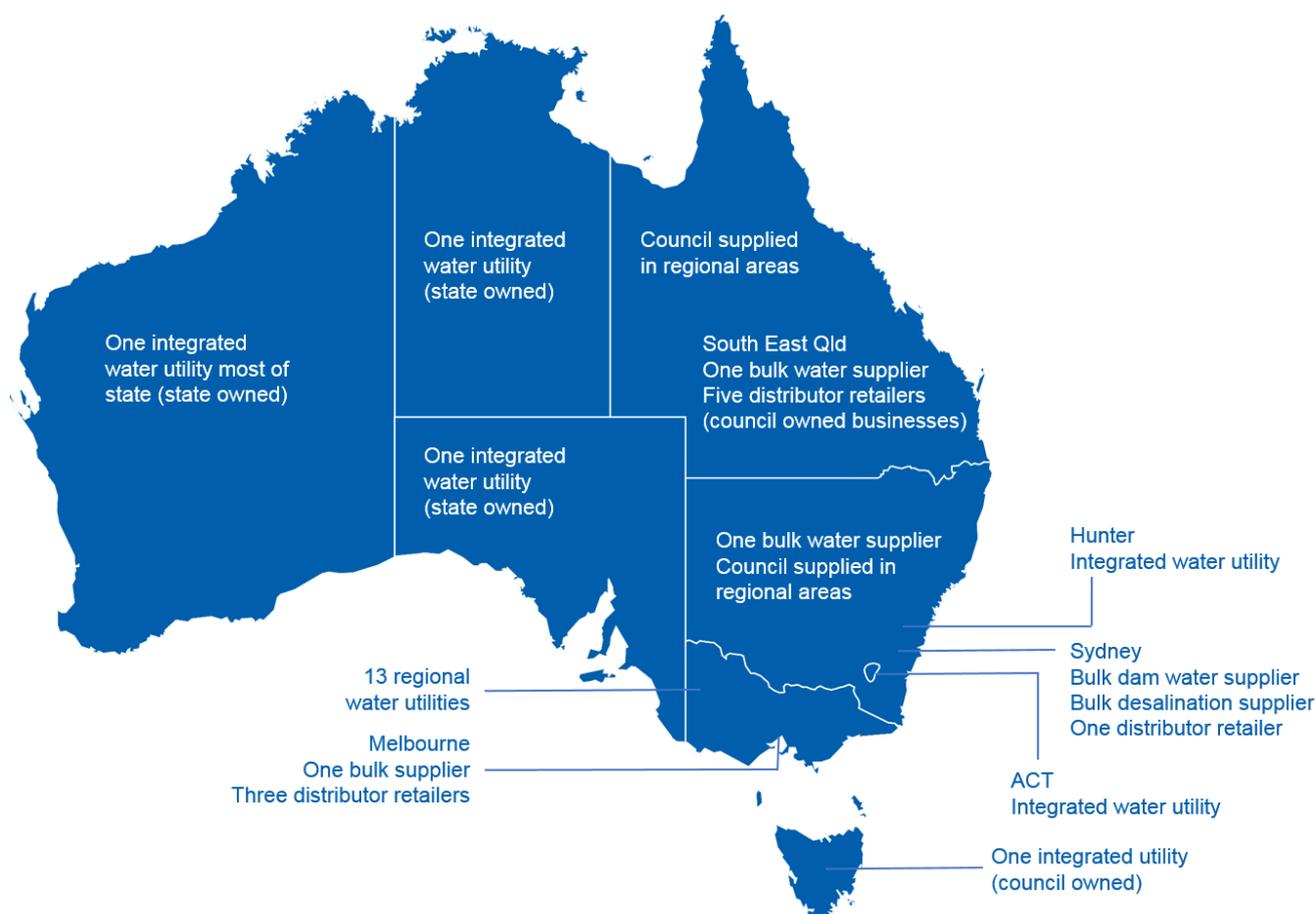


Figure 3 – Australian urban water supply delivery models

The number of water services providers has progressively been rationalised over the period 1980 to the early 2000s in major urban areas, from a multitude of government departments and local councils, to a small number of purpose-built specialist utilities. The exception is rural and regional retail water suppliers in NSW and Queensland, where in most cases individual local councils remain the owner and asset manager.

## 2.2 Financial viability and scale in regional areas

Of interest for the New Zealand context are the various approaches applied by state, territory and local governments to manage the challenges of financial viability and scale in regional areas. Corporatisation and rationalisation of water suppliers into a smaller number of independent utilities has improved water sector financial resilience and resource capability.

States have adopted a range of structural solutions. For example:

- NSW has rationalised bulk water supply for two-thirds of the water used in NSW under a state-owned corporation called Water NSW, which supplies water to regional towns, irrigators, Sydney Water Corporation and local water utilities.
- Victoria has rationalised water utilities to 17 state-owned statutory corporations independent of local government, with 13 in regional areas. This combines sufficient economies of scale with a strong connection between water services and the local communities they serve.
- The Tasmanian approach has been to achieve scale in operations through amalgamating regional utilities under joint council ownership to deliver a program of asset upgrades.

- In South East Queensland, there are a number of commercial corporatised utilities, owned by local councils. Some large councils such as the Gold Coast also operate their own water and wastewater businesses.

Amalgamation of water assets and operation is not a prerequisite to achieving economies of scale in local government. Alliances such as the Regional Organisations of Councils structure (Box 5) and regional water collaboration arrangements (Box 6) have also been utilised to improve water service provider capability, particularly in instances where local councils have maintained water ownership and operational responsibilities and not adopted an independent commercial delivery model.

### **Box 5: Central NSW Regional Organisation of Councils (Centroc)**

The Regional Organisations of Councils model in Australia is a voluntary grouping that usually involves collaborative partnerships between neighbouring councils in a particular region or area.

Centroc is a voluntary regional collaboration of councils in Central NSW to advocate for and improve operational efficiencies of its member councils - Bathurst, Blayney, Cabonne, Cowra, Forbes, Hilltops, Lachlan, Lithgow, Oberon, Orange, Parkes, Upper Lachlan, Weddin and Central Tablelands Water. The Centroc region represents over 200,000 people and covers more than 50,000 square kilometres.

One component of the arrangement is the Centroc Water Utilities Alliance, which the member councils indicate has<sup>1</sup>:

- improved overall best practice compliance of the constituent local water utilities
- enhanced training of water and sewage treatment plant operators
- resulted in performance in water pricing, water quality, sewage effluent quality and typical residential bills that is equal to or better than comparable regional areas
- allowed better resourced Alliance members to mentor less well resourced Alliance partners, which is benefitting all communities in the Alliance area of operation
- supported better access to grant funding
- collectively saved its members in excess of \$600,000 since formation in 2009.

<sup>1</sup> Central NSW Councils Submission to the Productivity Commission National Water Reform Inquiry, May 2017

Where regional services cannot achieve full cost recovery, the NWI provides for transparent arrangements to subsidise services. For example, Water Corporation, the Western Australian urban water supplier, applies a constant water charge across the state. Water Corporation receives an annual transparent operating subsidy from the Western Australian Government for the provision of non-profitable services, mostly in regional and remote areas. The operating subsidy was \$464 million in 2016-17<sup>15</sup>.

<sup>15</sup> Water Corporation (2017), *2017 Annual Report*, p. 18, <https://www.watercorporation.com.au/-/media/files/residential/about-us/our-performance/annual-report-2017/2017%20annual%20report%20-%20web%20version.pdf>, accessed 10 August 2018

## Box 6: Queensland Water Regional Alliance Program (QWRAP)

QWRAP is an industry-led initiative to investigate regional collaboration on water and sewerage services in regional Queensland. The initiative participants include:

- Local Government Association of Queensland
- Qldwater
- Queensland Government (through the Department of Natural Resources, Mines and Energy), and
- 30 participating councils.

QWRAP has resulted in the formation of five regional collaboration areas, three of which have formed formal Water Alliances:

- Downs and Surat basin Area (Balonne, Goondiwindi, Maranoa, Southern Downs, Toowoomba and Western Downs councils)
- Far North Queensland (Cairns, Douglas, Mareeba, Tablelands, Cassowary Coast, Palm Island, Cook, Croydon, Etheridge local councils)
- Outback Regional Water Alliance (Barcoo, Barcaldine, Blackall-Tambo, Boulia, Diamantina, Longreach and Winton councils)
- Wide Bay Burnett Water Alliance (North Burnett, Bundaberg, Gympie, South Burnett, Woorabinda, and Fraser Coast councils), and
- Whitsunday-Isaac-Mackay Water Alliance (Whitsunday, Isaac and Mackay councils).

Three additional regions, encompassing a further 19 councils, have technical groups considering collaborative projects in North Central and far North-West Queensland.

The Queensland Government has provided continued funding support between 2011 and 2018. In July 2018, the Queensland Government extended its funding to 2022 for the established five QWRAP regions and an annual research project. In addition, Queensland Government funding provides a 'bid-pool' to be accessed by participating councils to initiate high priority collaboration opportunities. Access to the bid pool requires matching funding from participating councils.<sup>1</sup>

According to an independent review of the QWRAP<sup>2</sup>, the program:

- Delivers cost savings (approximately \$3 million in the financial year)
- has allowed councils to defer or avoid capital costs
- provides an opportunity for shared learnings
- continues to drive industry efficiencies and innovation through collaboration.

<sup>1</sup> <https://www.qldwater.com.au/QWRAP>, accessed 21 August 2018

<sup>2</sup> Deloitte Access Economics, 2018; QWRAP Update Year 2: 2016-17 Funding  
[https://www.qldwater.com.au/literature\\_236307/QWRAP\\_Progress\\_Update\\_October\\_2017](https://www.qldwater.com.au/literature_236307/QWRAP_Progress_Update_October_2017)

## 2.3 Victoria

### Water and wastewater service provision and ownership structure

#### Victorian water reform history

The size and scope of the Victorian water corporations are the product of continued amalgamations and water reforms over the period 1980 to the early 2000s (Figure 4). During the 1970s, urban water and sewerage services across Victoria were provided by hundreds of water trusts, sewerage authorities and local councils. This number was reduced to 83 in the early 1990s and to the current number in the early 2000s, following major reforms and sectoral restructuring. This included removing water and sewerage functions from local government. However, governance and legislative arrangements were still considered incohesive.<sup>16</sup>

Standardised corporation arrangements were implemented with the *Water Governance Act 2006*, which require each water authority to perform its functions as efficiently as possible, consistent with commercial practice.<sup>17</sup> The *Water Governance Act 2006* was one part of the then Victorian Government's larger water reform in response to the 2004 White Paper, *Our Water Our Future*.

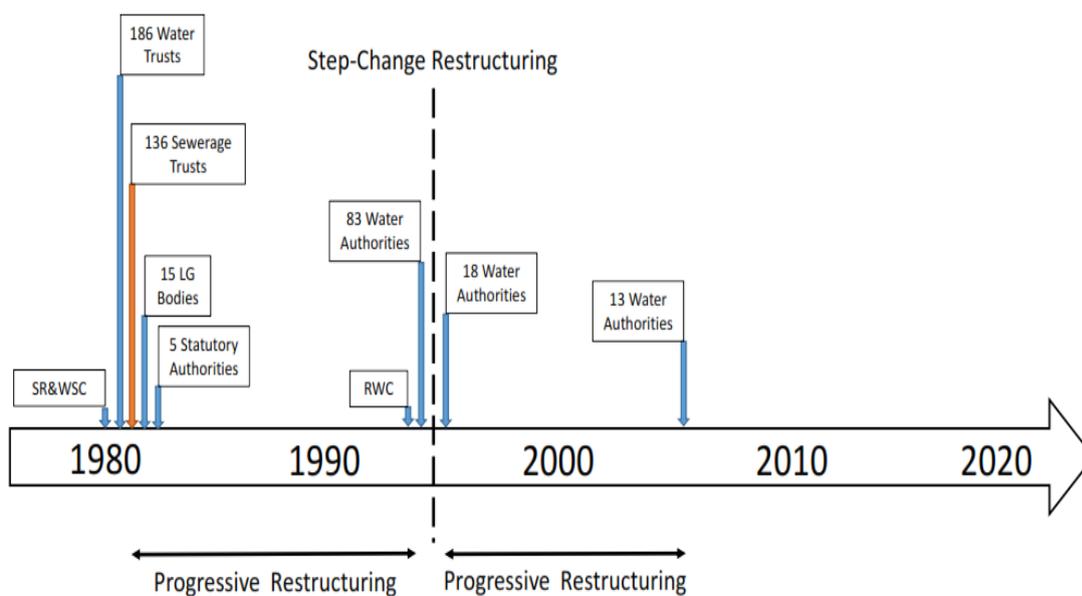


Figure 4 - Victorian water reform timeline

<sup>16</sup> Context (2007), *Victorian Water Supply Heritage Study Volume 1 Part B: Thematic Environmental History*, p. 53, Context Pty Ltd for Heritage Victoria, 31 October 2007, <https://www.heritage.vic.gov.au/research-and-publications/thematic-and-typological-studies/water-supply-thematic-and-typological-studies>, accessed 21 August 2018

<sup>17</sup> Minister for Water (2006), *Water Governance Bill: Second Reading Speech*, [http://hansard.parliament.vic.gov.au/?IW\\_DATABASE=\\*%26IW\\_FIELD\\_TEXT=HOUSENAME%20CONTAINS%20\(ASSEMBLY\)%20AND%20SPEECHID%20CONTAINS%20\(52413\)%20AND%20SITTINGDATE%20CONTAINS%20\(10%20August%202006\)&Title=WATER%20\(GOVERNANCE\)%20BILL%26IW\\_SORT=n:OrderId%26LDMS=Y](http://hansard.parliament.vic.gov.au/?IW_DATABASE=*%26IW_FIELD_TEXT=HOUSENAME%20CONTAINS%20(ASSEMBLY)%20AND%20SPEECHID%20CONTAINS%20(52413)%20AND%20SITTINGDATE%20CONTAINS%20(10%20August%202006)&Title=WATER%20(GOVERNANCE)%20BILL%26IW_SORT=n:OrderId%26LDMS=Y), accessed 21 August 2018

## The current structure of the Victorian urban water sector

Victorian urban water services are now supplied by 17 state owned corporations (4 metropolitan and 13 regional), constituted under the *Water Act 1989*, owned by the Victorian Government and governed by independent boards. Each water corporation has defined water service responsibilities, within specified geographic boundaries.<sup>18</sup> Broadly speaking:

- Melbourne water supplies, treats and transfers drinking water to Melbourne's three retail water corporations (City West Water, Yarra Valley Water and South East Water) and other non-metropolitan water businesses (Western Water, Barwon Water, Gippsland Water, South Gippsland Water, Southern Rural Water, Westernport Water)<sup>19</sup>
- Melbourne Water also transports, treats and disposes 90 per cent of the sewage generated by Melbourne and the wider metropolitan area within the City West, South East Water and Yarra Valley Water Operations (Figure 5)<sup>20</sup>, and
- Drinking water treatment and sewerage services outside the Melbourne Metropolitan area are provided by the designated regional retail water provider (Figure 6).

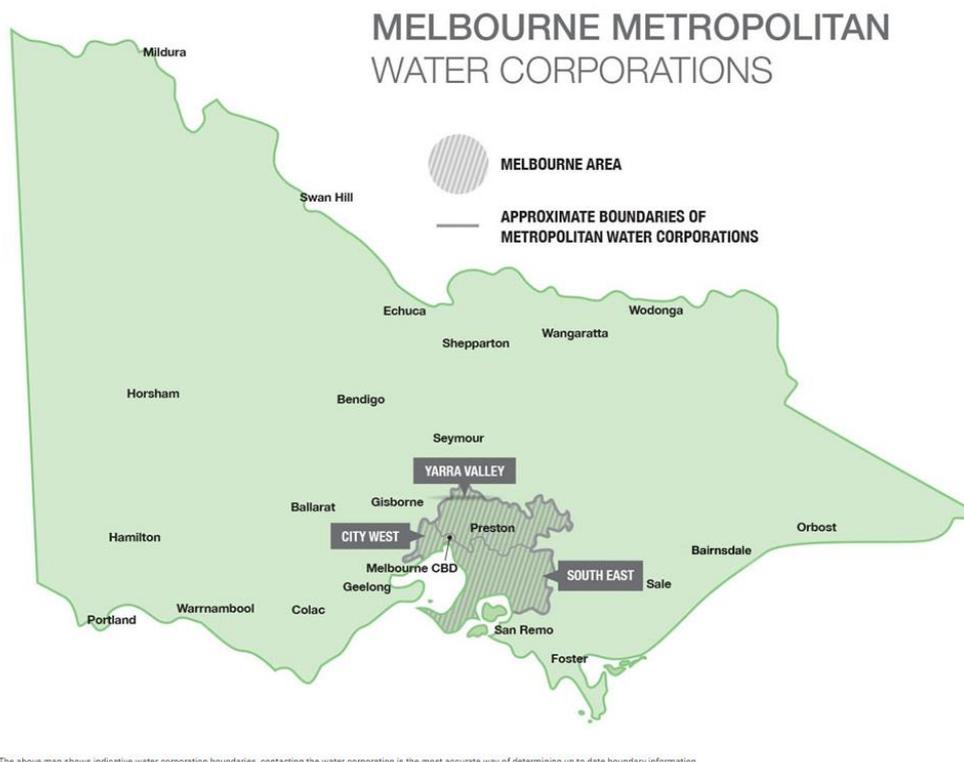


Figure 5 - Melbourne Metropolitan Retail Water Corporations

Data source: VicWater, *Victorian Water Sector: Metropolitan*, <https://vicwater.org.au/victorian-water-sector/metropolitan-melbourne>

<sup>18</sup> <https://vicwater.org.au/victorian-water-sector>, accessed 21 August 2018

<sup>19</sup> Melbourne Water (2017), *Melbourne Water 101: Who we are, what we do and who we work with*, December 2017, p. 4

<sup>20</sup> Melbourne Water (2017), *Melbourne Water 101: Who we are, what we do and who we work with*, December 2017, p. 4



The above map shows indicative water corporation boundaries, contacting the water corporation is the most accurate way of determining up to date boundary information.

Figure 6 - Victorian Regional Retail Water Corporations

Data source: VicWater, Victorian Water Sector: Regional, <https://vicwater.org.au/victorian-water-sector/regional-victoria>

## Regulatory and economic oversight

### Economic

The Essential Services Commission (ESC) is responsible for the economic regulation of the Victorian water sector.<sup>21</sup> The ESC performs this role by:

- assessing and approving water prices
- developing water codes and guidelines that specify service standards for water businesses
- monitoring the performance of water through sector performance reports, and
- conducting inquiries, studies and reviews on the water industry as required.

The regulatory framework that guides the ESC's roles are underpinned by the *Water Industry Act 1994* and its Water Industry Regulatory Order.<sup>22</sup>

In June 2018, the ESC completed its review and released its final report on the prices water corporations can charge over the period 1 July 2018 to 30 June 2023.

<sup>21</sup> <https://vicwater.org.au/victorian-water-sector/regulatory-framework>, accessed 21 August 2018

<sup>22</sup> Essential services Commission, *How we regulate the water sector*, <https://www.esc.vic.gov.au/water/how-we-regulate-water-sector/>; accessed 21 August 2018

## Drinking water quality

The Victorian Department of Human Services has responsibility for the regulation of drinking water in Victoria, under the *Safe Drinking Water Act 2003*. All drinking water suppliers are required by law to implement, develop and review risk management plans to manage risks to drinking water. This includes the treatment and sampling of water. The Department of Health and Human Services<sup>23</sup>:

- undertakes periodic audits of the risk management plans
- releases annual drinking water quality reports, and
- must be notified if drinking water is unlikely to comply with the Australian Drinking Water Guidelines, could pose a health risk or cause widespread complaints.

## Wastewater and water reuse

EPA Victoria has published multiple guidelines which outline the environmental obligations water service providers have under the *Environment Protection Act 1970* and associated statutory policies.<sup>24</sup>

## Water Ombudsman

The Energy and Water Ombudsman (Victoria) (EWOV) provides an independent dispute resolution and information service for Victoria's utility customers.

## 2.3 Tasmania

### Water and wastewater service provision and ownership structure

Prior to 1 July 2009, Tasmania's water services were provided by a combination of:

- three regional bulk water authorities, and
- 28 of the 29 local government councils.

Collectively, the councils were responsible for administering over 90 water supply schemes, while reticulated sewerage wastewater treatment services were provided by 27 councils within their respective council boundaries.<sup>25</sup>

These entities were amalgamated under the auspices of the NWI, with the establishment of TasWater in 2013 as a corporation in accordance with the *Corporations Act 2001*.

TasWater now provides water and sewerage services across Tasmania. Its objectives and ownership arrangements underpinned by the Water and Sewerage Corporation Act 2012. Unlike most other government corporations, TasWater is currently owned by the 29 local Tasmanian councils and not the Tasmanian state government and local councils receive dividend payments in proportion to their ownership stake.

On 27 September 2018, the council owners of TasWater agreed to support the Tasmanian Government becoming a shareholder of TasWater<sup>26</sup>. The government will inject \$200 million over the next decade in return for a 10 per cent shareholding. Box 7

<sup>23</sup> Victorian Government, *Drinking water and public health*, <https://www2.health.vic.gov.au/public-health/water/drinking-water-in-victoria/drinking-water-public-health>, accessed 21 August 2018

<sup>24</sup> <https://www.epa.vic.gov.au/business-and-industry/guidelines/water-guidance/wastewater-guidance-for-industry>, accessed 21 August 2018

<sup>25</sup> Tasmanian Government (2012), Second reading speech: *Water and Sewerage Corporation Bill 2012*, [http://www.parliament.tas.gov.au/bills/Bills2012/pdf/notes/50\\_of\\_2012-SRS.pdf](http://www.parliament.tas.gov.au/bills/Bills2012/pdf/notes/50_of_2012-SRS.pdf), accessed 10 August 2018.

<sup>26</sup> <https://www.taswater.com.au/News/TasWater-News/Councils-vote-overwhelmingly-to-support-Government-becoming-a-shareholder>

provides further details of this arrangement.

Further details of the Tasmanian reform process are provided in Appendix 1.

### Box 7: Tasmania reform model<sup>1</sup>

The Tasmanian government and the local government owners of TasWater have recently agreed an equity injection for TasWater that involves:

- councils retain majority ownership and independent Board continues
- government injects \$200M over 10 years in exchange for 10% equity (1% per annum), gains special rights but receives no dividends into perpetuity
- special rights - one seat on Board selection committee (Head of Treasury), consulted on appointment of future CEO, one third say in approval of Corporate Plan
- price increases – zero in FY19 and capped at 3.5% until FY2024-25 subject to no significant increase in interest rates
- capital program lifted from \$1.5 billion to \$1.7 billion with best endeavours to deliver \$1.8M
- government loses special rights if it doesn't make equity payments
- price cap can be lifted or capital program reduced under certain circumstances.

The benefits from this arrangement are expected to be:

- the State government is now part of the solution and all parties are working collaboratively for best for state outcomes
- funding is available for major projects that are not in TasWater's remit but important for state economic growth
- the need for long term planning is well understood and funding for the long term is available
- retention of independent regulatory model and independent skills based Board means TasWater remains focused on fixing infrastructure, delivering better customer service and providing value for money
- changes do not affect TasWater operations or existing reform program.

1. Presentation by TasWater to Infrastructure Partnerships Australia, October 2018

## Regulatory and economic oversight

### Economic

The Office of the Tasmanian Economic Regulator (OTTER) conducts TasWater's price and licensing regulation, underpinned by the *Water and Sewerage Industry Act 2008*. OTTER completed its third Price Determination investigation on 4 May 2018, with the regulated prices and service standards scheduled to commence on 1 July 2018.<sup>27</sup> However, in response to affordability concerns, TasWater opted to apply lower water prices for 2018-19. The commitment by the Tasmanian government to inject \$20 million of capital over each of the next 10 years will enable water and sewerage charges to be contained with prices frozen for a year from 1 July 2019 and further annual increases capped at 3.5 per cent until 30 June 2025.

<sup>27</sup> Office of the Tasmanian Economic Regulator (2018), *2018 Water and Sewerage Price Determination Investigation*, <https://www.economicregulator.tas.gov.au/water/pricing/price-determination-investigations/2018-water-and-sewerage-price-determination-investigation>, accessed 10 August 2018

## Drinking water quality

The Department of Health and Human Services regulates the quality of drinking water from all public reticulated drinking water supply systems. All water suppliers of public reticulated drinking water supply systems must meet the requirements of the *Public Health Act 1997 Drinking Water Quality Guidelines* at the state level, and Australian Drinking Water Quality Guidelines maintained by NHMRC, to ensure the water is safe to use, or that consumers are advised if it is not regarded as potable.

Water authorities are required to develop drinking water quality management plans, to help ensure that each step in the drinking water supply system assists in eliminating, or reducing to an acceptable level, any undesirable contaminants which may be present in the source water.

Drinking water suppliers provide the Department of Health and Human Services an Annual Report covering a range of matters relevant to public health. The Annual Water Reports detail each drinking water supplier's compliance with the Water Quality Guidelines for the water supply systems under their control and describe the various systems in place for the protection of public health.<sup>28</sup>

TasWater announced on 21 August 2018 that 100 per cent of TasWater's customers can safely consume water directly from the tap, with the removal of previous standing Boil Water Alerts and Do Not Consume Notices from all TasWater connected water supplies.<sup>29</sup>

## Wastewater and water reuse

Environment Protection Authority Tasmania regulates Wastewater Treatment Plants larger than 100 kilolitres/day in Tasmania and has powers to investigate serious environmental offences and undertake enforcement proceedings under the *Environmental Management and Pollution Control Act 1994*. Local councils regulate smaller wastewater treatment activities (less than 100 Kl/day), on-site treatment systems including septic tanks and the sewerage reticulation network.<sup>30</sup>

## Water Ombudsman

A customer may lodge a complaint with the Tasmanian Ombudsman if they are dissatisfied with the way a complaint has been handled by the water service provider.

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<sup>28</sup> Tasmanian Government, *Water in Tasmania - who is responsible?*, Department of Primary Industries, Parks, Water and Environment, <https://dpipwe.tas.gov.au/water/a-guide-to-water-in-tasmania/water-in-tasmania>, accessed 10 August 2018

<sup>29</sup> TasWater (2018), *TasWater successfully completes historic 24 glasses – Regional Towns Water Supply Program*, <https://www.taswater.com.au/News/Media-Releases>, 21 August 2018, <https://www.taswater.com.au/News/Media-Releases>, accessed 12 September 2018

<sup>30</sup> EPA Tasmania, *Legislative Context – Wastewater*, <https://epa.tas.gov.au/regulation/wastewater/legislative-context-wastewater>, accessed 10 August 2018

## 2.4 Queensland

### Water and wastewater service provision and ownership structure

South East Queensland (SEQ) water and sewerage services are provided by a range of organisations across the 11 local council areas (Figure 7).

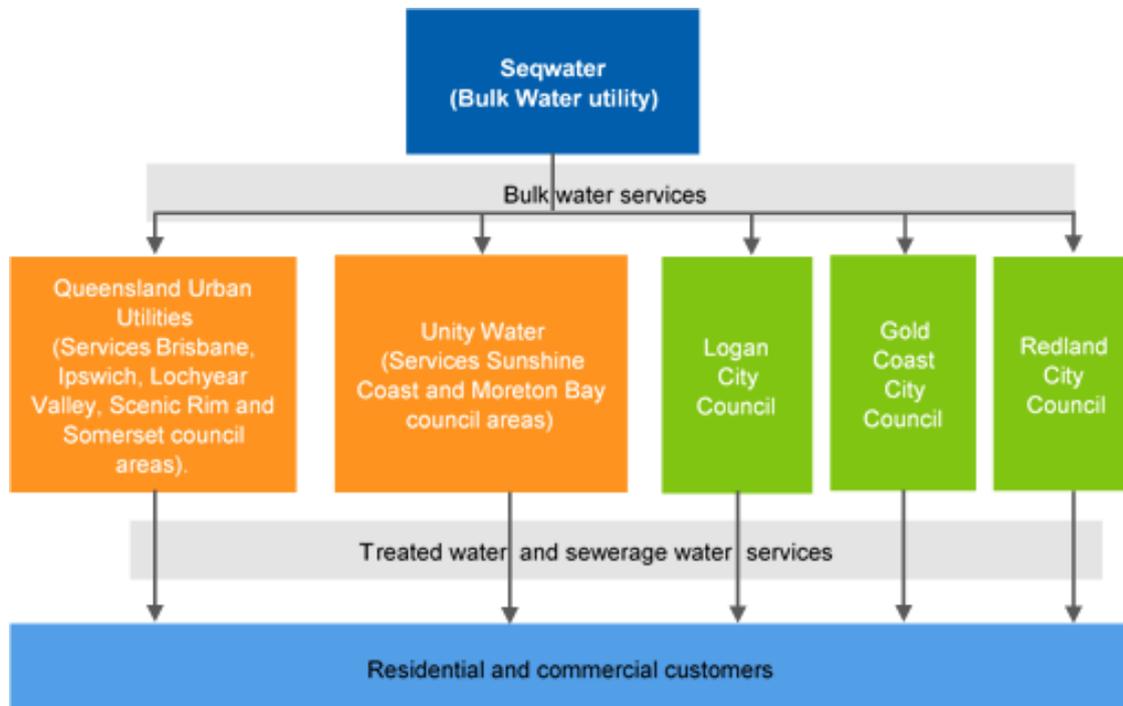


Figure 7- SEQ water service provision and ownership structures

Note: Seqwater is a Queensland statutory authority (the Queensland Bulk Water Supply Authority) established under the *South East Queensland Water (Restructuring) Act 2007*. Queensland Urban Utilities and Unity Water are statutory authorities owned by their respective local council's and governed by an independent board.

Data source: CIE

In the Logan, Redland and Gold Coast areas, water and sewerage services are provided by the respective local council. The remaining 8 council areas are supplied by two council-owned distributor-retailers<sup>31</sup>:

- Queensland Urban Utilities supplies water services to Brisbane, Ipswich, Lockyer Valley, Scenic Rim, and Somerset local council areas, and
- Unitywater supplies water services to Moreton Bay, Sunshine Coast and Noosa local council areas.

Queensland Urban Utilities and UnityWater are statutory authorities owned by their respective local councils and governed by an independent board. For the period 2010 to 2012, Redland, Gold Coast and Logan City Councils provided their residents with retail water and sewerage services via the jointly owned corporation Allconnex. However, Gold Coast and Redland City Councils decided to withdraw from the jointly-owned Distribution and Retail entity.<sup>32</sup>

<sup>31</sup> <https://www.qld.gov.au/environment/water/providers>, accessed 10 August 2018.

<sup>32</sup> <https://www.qldwater.com.au/e-flashes-1/allconnex-turmoil>, accessed 10 August 2018.

All the SEQ water and sewerage providers buy their treated bulk water from Seqwater, the Queensland Government's Statutory Authority (the Queensland Bulk Water Supply Authority) established under the *South East Queensland Water (Restructuring) Act 2012*.<sup>33</sup> Seqwater became the sole SEQ bulk water and flood mitigation supplier in 2013 following the amalgamation of Seqwater, LinkWater and the SEQ Water Grid Manager. The Queensland Water Commission was also abolished at this time.<sup>34</sup>

## Regulatory and economic oversight

### Economic

The Queensland Competition Authority (QCA) has no price regulation role in urban retail water, with retail water prices in SEQ set directly by the five water retailers (Queensland Urban Utilities, UnityWater, Logan City Council, Redland City Council and Gold Coast City Council). In the past, the QCA monitored water prices in SEQ to assess whether households and businesses were paying a price that is comparable with the costs of providing the relevant services. The last price review was completed in 2014, for the 2013-15 period at the request of the Queensland government.

The QCA undertakes periodic investigations of, and recommends, Seqwater's bulk water prices, at the request of the Queensland Government.<sup>35</sup> In March 2018, the QCA completed the 2018-21 Seqwater bulk water price review and provided its recommendations to the Queensland Government.<sup>36</sup> The Queensland Government accepted the QCA's recommended smoothed price path to increase prices so that all SEQ customers will have a common bulk water charge of \$3.12 per kilolitre on 1 July 2020.<sup>37</sup>

The Queensland government requested, but did not adopt<sup>38</sup>, recommendations from the QCA on a long-term water regulatory framework to provide incentives for SEQ retailers to improve strategic performance and reduce their administrative burden<sup>39</sup>. The proposed framework involved:

- annual information returns by the SEQ water retailers on prices (and costs where relevant), customer engagement, strategic investment and service quality
- an annual performance report by the QCA based on the information received from retailers, and
- the ability for the QCA to impose escalating levels of regulatory conditions on the SEQ retail water providers in the event the QCA determines a risk that the retailer is exercising market power (Figure 8).

<sup>33</sup> <https://www.qld.gov.au/environment/water/providers>, accessed 10 August 2018

<sup>34</sup> <https://www.urbanutilities.com.au/about-us/who-we-are>, accessed 10 August 2018

<sup>35</sup> Queensland Competition Authority (2018), *Water*, <http://www.qca.org.au/Water>, accessed 10 August 2018

<sup>36</sup> Queensland Competition Authority (2018), *Seqwater Bulk Water Prices 2018-21*, <http://www.qca.org.au/Water/Urban-bulk-water/SEQ-bulk-water/Final-Report/Seqwater-Bulk-Water-Prices-2018-21#finalpos>, accessed 10 August 2018

<sup>37</sup> Queensland Government (2018), *Stop price shocks with fairer SEQ water bill*, Minister for Natural Resources, Mines and Energy, June, <http://statements.qld.gov.au/Statement/2018/6/6/stop-price-shocks-with-fairer-seq-water-bill>, accessed 10 August 2018

<sup>38</sup> Queensland Competition Authority (2018), *Water*, <http://www.qca.org.au/Water>, accessed 10 August 2018

<sup>39</sup> Queensland Competition Authority (2014), *SEQ Retail Water Long-Term Regulatory Framework – Overview – Part A: Final Report*, p. ii, September 2014

Proposed regulatory condition	Trigger for regulatory condition
Annual water retailer information returns	Ongoing requirement.
Further information requests by the Queensland Competition Authority	When the Queensland Competition Authority determines: <ul style="list-style-type: none"> <li>• that water retailer efficiency and service performance can be improved, or</li> <li>• a risk that the retailer is exercising market power.</li> </ul>
Cost of service review	The Queensland Competition Authority considers there is sufficient evidence of a potential exercise of market power which cannot be justified by the retailer.
The Queensland Competition Authority set prices, subject to Ministerial direction	Confirmation by the Queensland Competition Authority of evidence that a retailer(s) is exercising market, and the retailer does not address the issue.

*Figure 8 - Queensland Competition Authorities' proposed regulatory conditions*

Source: Queensland Competition Authority (2014), *SEQ Retail Water Long-Term Regulatory Framework – Overview – Part A: Final Report*, September 2014

All SEQ retail water service providers are subject to a minimum service and customer protection provisions outlined in the<sup>40</sup>:

- *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*, and
- South East Queensland customer water and wastewater code.

A mandatory performance reporting framework has been established which requires annual reporting on key performance indicators including:

- water supply security
- service delivery
- financial stability
- infrastructure investment and maintenance
- demand management, and
- customer service and affordability.

The Department of Natural Resources, Mines and Energy, under the *Water Supply (Safety and Reliability) Act 2008*, may undertake an investigation if annual performance reporting indicates an imminent risk to water security or continuity of supply. If an investigation reveals risks to water security or service continuity, the Department of Natural Resources, Mines and Energy will issue a show cause notice and consider any responses from the provider. A service provider may be required to develop and implement an improvement plan that describes how the identified risks to water security or service continuity will be managed.<sup>41</sup>

<sup>40</sup> <https://www.business.qld.gov.au/industries/mining-energy-water/water/sewerage-service-providers/industry-regulation/obligations/customer-protections>, accessed 10 August 2018

<sup>41</sup> Business Queensland (2018), *Water service provider performance reporting*, <https://www.business.qld.gov.au/industries/mining-energy-water/water/sewerage-service-providers/industry-regulation/performance-reporting/improvement>, accessed 10 August 2018

### Drinking water quality

The *Water Supply (Safety and Reliability) Act 2008* requires all water service providers to have a drinking water quality management plan in place and comply with the details of the plan. Service providers are required to lodge an annual drinking water quality management plan report to the Department of Natural Resources, Mines and Energy. The annual report must include details of compliance with water quality criteria as determined by the latest Australian drinking water guidelines, as well as the standards in the *Public Health Regulation 2005*. All drinking water incidents must be reported to the Department of Natural Resources, Mines and Energy.<sup>42</sup>

### Water Ombudsman

The Energy and Water Ombudsman Queensland offers a dispute resolution service for residential and small businesses in SEQ who use less than 100 kilolitres of water a year.<sup>43</sup>

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<sup>42</sup> Business Queensland (2018), *Drinking water*, <https://www.business.qld.gov.au/industries/mining-energy-water/water/sewage-service-providers/industry-regulation/drinking-water>, accessed 10 August 2018

<sup>43</sup> [https://www.business.qld.gov.au/industries/mining-energy-water/water/sewage-service-providers/industry-regulation/obligations/customer-protections\\_](https://www.business.qld.gov.au/industries/mining-energy-water/water/sewage-service-providers/industry-regulation/obligations/customer-protections_), accessed 10 August 2018

## 3.0 Water resource management

### Key messages

- A parallel process of water quality and catchment management has complemented structural and economic reform and ensured high quality water supplies.
- Planning around anticipated demand, water supply sources, and hydrological risk provide longer term water supply security and an ability to better respond to supply and demand pressures.
- Efficient pricing and prudent investment provide for capital growth and replacement to support networks that cater for growing demand, and consistent quality of service and environmental outcomes.

New Zealand is considering creating a national water quality regulator to address what it has identified as:

- risks to human health and the environment in parts of the country and
- evidence of inadequate levels of central and local government compliance, monitoring and enforcement in some locations.

### 3.1 Water quality management

Australia has a strong model of water quality regulation, which works alongside structural and economic arrangements. Water quality regulation balances national consistency with the ability for regional variation. The Australian drinking water guidelines are set nationally, then implemented each state and territory health department.

In addition, the Urban Water National Performance Report, administered by the Australian Bureau of Meteorology, reports annually on measures such as microbiological compliance, sewerage treatment levels and overflows. The 2016-17 report confirmed the high standard of Australian drinking water, with all reported utilities across all utility size groupings achieving 100 per cent microbiological compliance, with the exception of three which achieved at least 99 per cent<sup>44</sup>.

Complementing the NWI reform agenda were major advances in the areas of water quality and water catchment management. This was in response to some urban water suppliers not meeting consumer quality expectations, wastewater discharges causing pollution to various marine environments, and benefits offered by international advancements.<sup>45</sup>

The headline reform in this area was the National Water Quality Management Strategy (NWQMS), developed by the Australian and New Zealand governments, in cooperation with state and territory governments. It was established in 1992 and incorporated into the Council of Australian Governments (COAG) Water Reform Framework in 1994. The key outcome was the development of a national policy to sustainably manage Australia's water resources by protecting and enhancing their quality while maintaining economic and social development.<sup>46</sup>

<sup>44</sup> Bureau of Meteorology *National Performance Report 2016-17 Urban Water Utilities*, Page 58.

<sup>45</sup> Doolan, J (2016), *The Australian Water Reform Journey An overview of three decades of policy, management and institutional transformation*, August 2016, p. 6

<sup>46</sup> Australian Government 2018, *Charter: National Water Quality Management Strategy*, p. 5, Department of Agriculture and Water Resources, Canberra, March 2018, <http://www.waterquality.gov.au/about/charter>, accessed 27 August 2018

The NWQMS was reviewed in 2008 and again in 2011 and most recently revised in 2018, with the release of the '*Charter: National Water Quality Management Strategy*'<sup>47</sup>. The NWQMS consists of three major elements:<sup>48</sup>

1. **policy** that enables effective water quality management for the delivery of fit for purpose water that supports community values
2. **process (framework)** for the development and implementation of management plans, and
3. **guidelines** that are developed using scientific evidence which provide benchmarks and targets for managing water quality across a range or risk profiles and uses.

NWQMS guidelines include:<sup>49</sup>

- The Australian Drinking Water Guidelines (2011) – updated October 2017
- Australian and New Zealand Guidelines for Fresh and Marine Water Quality (2000)
- Guidelines for groundwater quality protection in Australia (2013)
- Guidelines for urban stormwater management (2000)
- Guidelines for sewerage systems
- Guidelines for effluent management, and
- Guidelines for water recycling.

The NWQMS guidelines are periodically reviewed and updated to maintain their currency. The Australian Drinking Water Guidelines (2011) undergo more frequent revision by a dedicated Australian government body, the National Health and Medical Research Council (NHMRC) to ensure they represent the latest scientific evidence on good quality drinking water.<sup>50</sup>

The NWQMS is utilised by all state and territory governments to establish their own guidelines, regulations, policies, processes and standards for managing the quality and supply of water that is fit for purpose. Figure 9 summarises the NWQMS governance, enforcement and review framework.

Ongoing management of the NWQMS is the responsibility of the National Water Reform Committee (NWRC) —an interjurisdictional committee that considers and progresses national water reforms of the national water initiative (NWI) and other national agreements. The NWRC receives advice from the Water Quality Policy Sub Committee (WQPSC), who also implement the agreed strategic directions for the National Water Quality Management Strategy.<sup>51</sup>

<sup>47</sup> Australian Government 2018, *Charter: National Water Quality Management Strategy*, Department of Agriculture and Water Resources, Canberra, March 2018, <http://www.waterquality.gov.au/about/charter>, accessed 27 August 2018

<sup>48</sup> <http://www.waterquality.gov.au/about>, accessed 22 August 2018

<sup>49</sup> <http://agriculture.gov.au/water/quality/nwqms#guidelines>, accessed 31 July 2018

<sup>50</sup> <https://www.nhmrc.gov.au/guidelines/publications/eh52>, accessed 31 July 2018

<sup>51</sup> <http://www.waterquality.gov.au/about>, accessed 27 August 2018

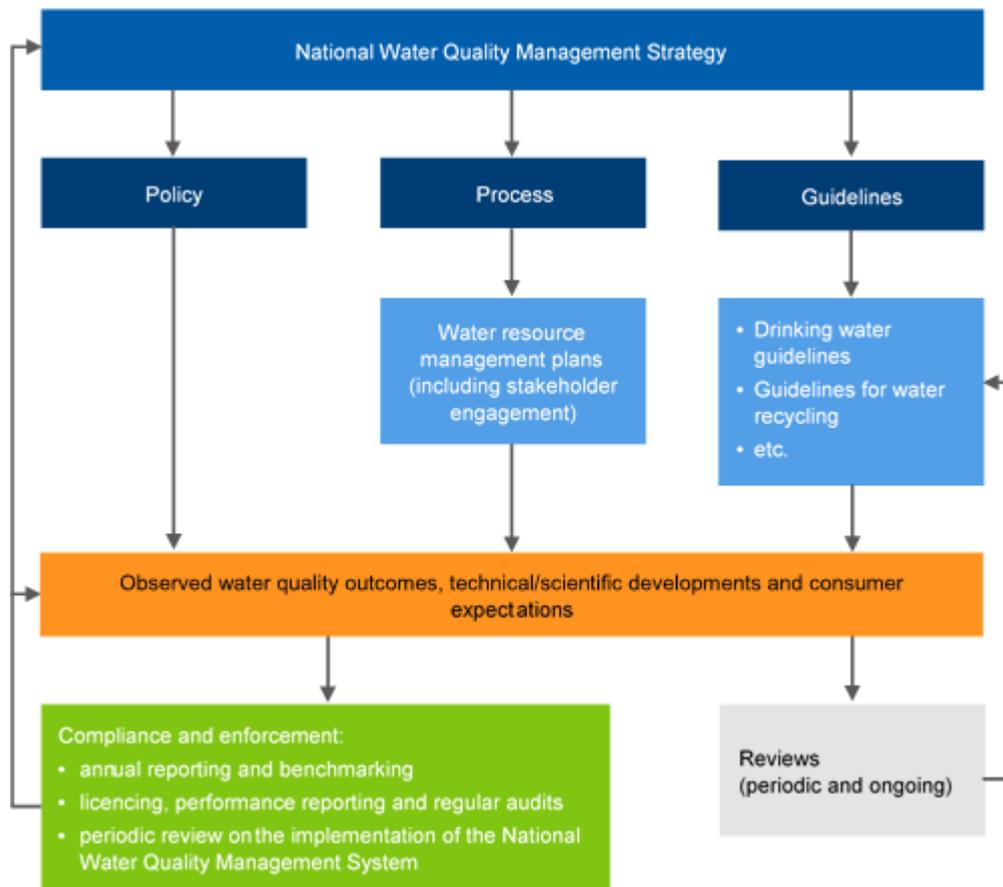


Figure 9 - National Water Quality Management Strategy governance, enforcement and review framework

Compliance with water quality objectives is undertaken by various independent Australian and state government agencies using a variety of methods, such as:

- annual reporting and benchmarking via the Urban National Performance Report, published by the Bureau of Meteorology<sup>52</sup>
- licencing, performance reporting and regular audits of water utilities by independent regulators<sup>53</sup>, and
- periodic reviews on the implementation of the NWQMS by the Australian Government.<sup>54</sup>

The practical implementation of the NWQMS by utilities relies on the concepts of efficient pricing and prudent investment. This in turn provides for capital growth and replacement to support networks that cater for growing demand, and consistent quality of service and environmental outcomes.

<sup>52</sup> <http://www.bom.gov.au/water/npr/>, accessed 31 July 2018

<sup>53</sup> For example, the Independent Pricing and Regulatory Tribunal of NSW conducts licence compliance on behalf of the NSW Government. Refer to <https://www.ipart.nsw.gov.au/Home/Industries/Water/Compliance>.

<sup>54</sup> For example, Bennet, J (2008), *Final discussion paper on implementation of the National Water Quality Management Strategy*, Department of the Environment, Water, Heritage and the Arts, <http://webarchive.nla.gov.au/gov/20130905183842/http://www.environment.gov.au/water/publications/quality/pubs/nwqms-implementation-discussion-paper.pdf>, accessed 31 July 2018

### 3.2 Metropolitan water planning

The New Zealand review is also considering approaches to address water resource planning challenges including:

- increasing demand for water infrastructure in high-growth areas
- high seasonal demand on water services due to tourism.

Longer term planning around anticipated demand, water supply sources, potential supply augmentation, and hydrological risk play an important role in water security and reliability.

As an example, the Metropolitan Water Directorate within the NSW Government leads a whole-of-government approach to water planning for greater Sydney and the lower Hunter region. It is supported by an Independent Water Advisory Panel that provides strategic and technical advice.

The NSW Government first developed a Metropolitan Water Plan in 2004 to inform government decisions in relation to future water infrastructure investment and guide strategic planning. The Plan was reviewed in 2006 in response to a severe drought.

Reviewed regularly, plans are developed in collaboration with water utilities and state agencies, key industry stakeholders and the community. They are prepared using input from:

- technical studies and independent reviews
- hydrological modelling
- economic analyses
- community and stakeholder engagement activities and social surveys.

#### Box 8: 2017 Metropolitan Water Plan for Sydney and Lower Hunter

Features of the current 2017 Metropolitan Water Plan include:<sup>1</sup>

- water supply and demand: optimising the mix of water supply and demand measures (such as dams, desalination, water restrictions) to provide water security at the least cost
- water conservation: Sydney Water is leading an approach to determining the optimal level of investment to help save water
- drought readiness: the plan includes a flexible Drought Response Strategy
- WaterSmart Cities: a new program to facilitate a more integrated approach to providing water, wastewater and stormwater services and make communities more liveable and resilient, and
- improving river health: variable environmental flows will be released from water storages to help protect and improve river health.

<sup>1</sup> <https://www.metrowater.nsw.gov.au/planning-sydney>

Under the water planning regime, water use in greater Sydney has declined since 2002 and current total demand is approximately 100 billion litres per year lower than it was 25 years ago, despite a significant increase in population<sup>55</sup>.

## 4.0 Lessons learnt from Australia's water reform

### Key messages

- The main characteristics of successful urban water sector reform are:
  - a corporatised, independent and financially sustainable business model with independent regulation
  - transparency and accountability, leading to improved levels of performance
  - economies of scale, supporting financially sustainable businesses that can attract skilled staff and management and improve services and customer outcomes.
- One size does not fit all: different ownership structures and economic regulation arrangements can be adopted to achieve similar objectives.
- The reform principles do not preclude application to local government utilities – the model has been successfully applied at the local government level in Australia.
- Commercial models that achieve scale economies can operate under local government ownership and management.
- Successful reform requires coordinated oversight and appropriate incentive and monitoring arrangements to ensure collaboration of regional governments and utilities.
- Ongoing reform is required, within a model that is adaptable to future challenges.
- The corporatisation model has proven itself to be versatile and durable, and deliver material benefits to governments and water users.

An initial Three Waters Review has identified the New Zealand water sector is facing four key challenges:

- risks to human health and the environment in parts of the country
- inadequate levels of central and local government compliance, monitoring and enforcement in some area
- capacity and capability issues relating to asset management and governance of water infrastructure and or services, and
- funding and affordability.

The Australian water reform experience over the past two decades offers some insights that could help inform reforms in the New Zealand context, notably:

- commercial business structures provide governance and accountability to promote commercial and financially prudent outcomes, and better cater for customer expectations, and
- independent water quality management oversight can work alongside structural and economic reforms.

#### **4.1 Achievement of common objectives despite different models**

The states and territories have adopted various approaches to achieve the national water reform agenda and National Water Quality Management Strategy objectives.

However, despite the necessary differences, the urban water sector is underpinned by some common objectives based on the expectations of customers and taxpayers, with differences in the approach to implementation. For example, all Australian water users expect their water services to be delivered affordably, safely and sustainably. All Australian taxpayers expect urban water to be delivered efficiently, to minimise bill increases and imposts on public funds.<sup>56</sup> The acceptance of common objectives emphasises the key role of community engagement and its success in communicating the case for change to all stakeholders.

#### **4.2 A commercial model is durable, resilient and effective**

The commercialised business model has proven to be a successful and enduring approach to efficient business operations in government ownership. It has driven cost efficiencies, customer focus, rigorous capital evaluation, and management and board accountability.

Capital structures that support an investment-grade credit rating provide for the ability to source market debt and represent an additional layer of management discipline.

Corporate structures need not be seen as a staging post to privatisation, as they present an effective long-term approach to efficient government ownership.

#### **4.3 The use of incentives, accountability and coordinated oversight**

The National Competition Policy payments from the Australian Government to the states recognised reform was not costless and provided a direct incentive for them to initiate change without unnecessary delay. Access to these reform payments were publicly quoted in some cases as the impetus for change. For example, the Tasmanian water reform case study in Section 2.

The coordinated oversight of water reforms, firstly by COAG and then the purpose-built National Water Commission ensured appropriate resources were devoted to maintaining reform momentum and monitoring achievements.

Annual reporting, benchmarking and periodic reviews, as well as independent state and Australian regulators provide a strong incentive for water asset owners and operators to maintain best practice.

Significantly, the corporatisation model itself provides for accountability through regulator and shareholder oversight and independent skills-based boards.

#### **4.4 Economies of scale and scope matter**

Rationalisation of water suppliers into a smaller number of independent utilities has improved water sector financial resilience and resource capability. It provides for financially sustainable businesses, an ability to attract skilled management and staff, more affordable services and better customer outcomes.

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<sup>56</sup> Infrastructure Australia (2017), *Reforming Urban Water: A national pathway for change, December 2017*, p.33, [http://infrastructureaustralia.gov.au/policy-publications/publications/files/Reforming\\_Urban\\_Water\\_Web\\_version.pdf](http://infrastructureaustralia.gov.au/policy-publications/publications/files/Reforming_Urban_Water_Web_version.pdf), accessed 31 July 2018

However, amalgamation of water assets and operation is not a prerequisite to achieving economies of scale in local government. Alliances and regional water collaboration arrangements have also been utilised to improve water service provider capability, particularly in instances where local councils have maintained water ownership and operational responsibilities.

#### **4.5 Reform is an ongoing exercise**

Australia's water sector reform is an ongoing process.

The move to cost-reflective pricing and urban consumption-based pricing has significantly improved cost transparency and provided a clear incentive for consumers to modify their water use behaviour. These outcomes have been enhanced where prices are set by independent regulators or informed by independent advice.

However, there is scope for further reform to:

- improve the quality and consistency of economic regulation to promote the long-term interests of consumers and long-term viability of utilities
- enhance collaboration or scale economies between, smaller local government water utilities
- respond to challenges of water supply variability and growing demand
- manage resources better, especially in relation to stormwater.

# Appendix 1

## Tasmanian water reform history

The Tasmanian Government established a Ministerial Water and Sewerage Taskforce (Taskforce) in 2006 following Tasmania becoming a signatory to the NWI in 2005. The Taskforce identified several issues for consideration in its review, including<sup>57</sup>:

- historic investment and future financial implications for local government from delivering water and sewerage services
- consistency with the NWI and ensure reform outcomes facilitate Tasmania to access the Australian Government's Water Fund payments
- the status of Tasmania's water and sewerage assets the investment task ahead
- the water quality experienced in Tasmania and its link to health outcomes
- consideration of better coordination of water and sewerage services with land use planning
- structural arrangements that facilitate adequate resources and capabilities to develop and maintain long term plans for water and sewerage infrastructure
- long term strategic state-wide water and sewerage infrastructure planning
- capacity of local government to fund infrastructure
- structural reform options which facilitate the potential to capitalise on economies of scope and scale, and
- state-wide consistency in pricing and appropriate incentives for all customers to encourage appropriate and sustainable water use.

The Taskforce concluded<sup>58</sup>:

- approximately \$1 billion of water infrastructure was required over 10 years
- some councils had not completed asset condition assessments or had inadequate asset management plans
- approximately half of wastewater treatment plants were non-compliant
- 23 water supply areas on permanent boil water alerts, and
- a weak regulatory environment compared to other Australian states.

In response, the Tasmanian Parliament passed the *Water Sewerage Corporations Bill 2008* which established three water and sewerage corporations: Southern Water, Cradle Mountain Water and Ben Lomond Water, to operate in separate regions of Tasmania and owned by the respective local councils. A fourth corporation, Onstream, was also established to function as a common shared services provider.

<sup>57</sup> Tasmanian Government (2006), *Reform of Tasmania's water and sewerage sector: Ministerial water and sewerage Taskforce; Discussion Paper*, December 2006, p. 20, [https://stors.tas.gov.au/store/exlibris1/storage/STORS/2012/06/14/file\\_19/au-7-0092-00021\\_1.pdf](https://stors.tas.gov.au/store/exlibris1/storage/STORS/2012/06/14/file_19/au-7-0092-00021_1.pdf), accessed 10 August 2018

<sup>58</sup> Aird, M (Treasurer) (2008), *Water And Sewerage Corporations Bill 2008 Second Reading*, [http://www.parliament.tas.gov.au/bills/Bills2008/pdf/notes/23\\_of\\_2008-SRS.pdf](http://www.parliament.tas.gov.au/bills/Bills2008/pdf/notes/23_of_2008-SRS.pdf), accessed 10 August 2018.

The *Water and Sewerage Industry Bill 2008* was also passed by the Parliament and established the regulatory and economic framework including:

- licensing and compliance regime
- economic price regulator, and
- industry ombudsman.

In 2011, discussions commenced with owner councils about the potential benefits of a single state-wide water and sewerage corporation. After a series of reviews, council owners in all regions agreed to move to a single corporation that merged the current four corporations.

Specific governance arrangements were agreed that are now largely incorporated in the *Water and Sewerage Corporation Act 2012*. The new corporation, TasWater, was registered as a proprietary limited company under *Corporations Act 2001* (Cth) on 5 February, 2013.<sup>59</sup>

In 2017, the Tasmanian Government announced a takeover bid for TasWater due to asset investment and water quality concerns.<sup>60</sup> However, the Tasmanian Government was unable to pass the required legislation through the Tasmanian Parliament. Simultaneously, the Legislative Council Select Committee launched a review and concluded TasWater<sup>61</sup>:

- is financially sound with the capacity to increase borrowing to fund infrastructure
- has an appropriate asset management plan, and
- is making progress on water quality issues.

The Tasmanian Government subsequently abandoned its takeover bid.

The Government and TasWater agreed to a Memorandum of Understanding in May 2018 in which the Tasmanian Government will acquire joint ownership along with the local councils. In return, the Tasmanian Government will provide funding to accelerate TasWater's capital investment, as well as financial and operational input. However, local governments will maintain 100 per cent of all dividend payments.<sup>62</sup> Local government owners have confirmed their support for the Tasmanian Government becoming a 10 per cent shareholder of TasWater, in return for injecting \$200 million over the next decade.

<sup>59</sup> <https://www.taswater.com.au/About-Us/Who-is-TasWater->, accessed 10 August 2018

<sup>60</sup> Hodman. W (Premier of Tasmania) (2017), CEDA speech, [http://www.premier.tas.gov.au/releases/ceda\\_speech3](http://www.premier.tas.gov.au/releases/ceda_speech3), accessed 10 August 2018

<sup>61</sup> Parliament of Tasmania (2017), *Legislative Council Select Committee Final Report on TasWater Ownership*, <http://www.parliament.tas.gov.au/ctee/Council/Reports/two.rep.171122.FINAL.nedocx.pdf>, accessed 10 August 2018

<sup>62</sup> Tasmanian Government (2018) and TasWater, *Agreement reached on TasWater*, <https://www.lgat.tas.gov.au/webdata/resources/news/Joint%20Media%20Release%20&%20MoU%20State%20Govt%20&%20TasWater.pdf>, accessed 10 August 2018.

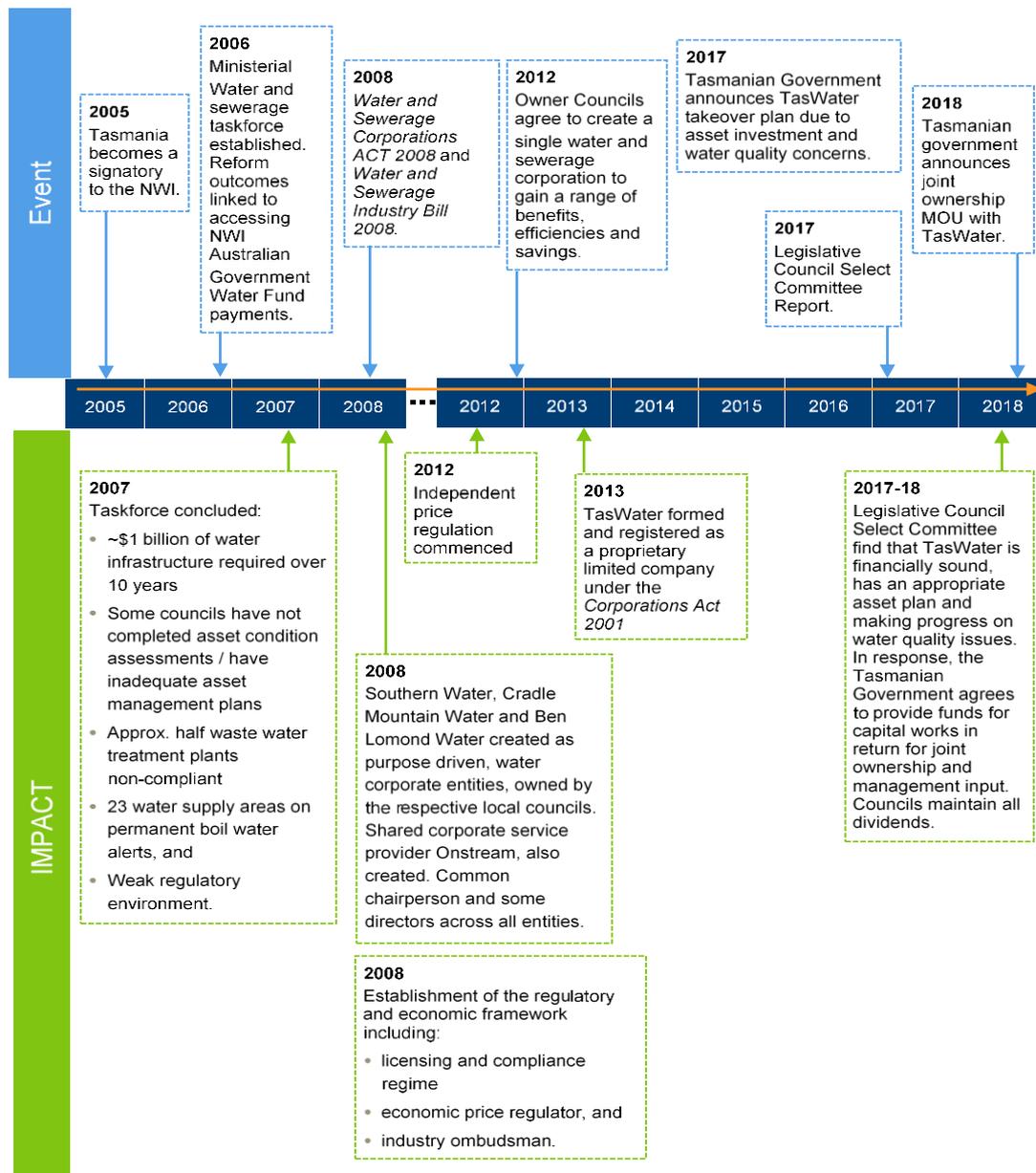


Figure 10 - TasWater reform and ownership history post the NWI

Data sources: Tasmanian Government (2006), *Reform of Tasmania's water and sewerage sector: Ministerial water and sewerage Taskforce; Discussion Paper*, December 2006, [https://stors.tas.gov.au/store/exlibris1/storage/STORS/2012/06/14/file\\_19/au-7-0092-00021\\_1.pdf](https://stors.tas.gov.au/store/exlibris1/storage/STORS/2012/06/14/file_19/au-7-0092-00021_1.pdf); Aird, M (Treasurer) (2008), *Water And Sewerage Corporations Bill 2008 Second Reading*, [http://www.parliament.tas.gov.au/bills/Bills2008/pdf/notes/23\\_of\\_2008-SRS.pdf](http://www.parliament.tas.gov.au/bills/Bills2008/pdf/notes/23_of_2008-SRS.pdf); Tasmanian Government (2008), *Water and Sewerage Industry Bill 2008 Fact Sheet*, <http://www.parliament.tas.gov.au/ParliamentSearch/isysquery/b889ac08-94b1-49bb-8c86-d4d0946e1893/7/doc>; TasWater (2017), *Submission to the Legislative Council Select Committee TasWater Ownership*, p. 9, <http://www.parliament.tas.gov.au/ctee/council/Submissions/TWO/LCSC%20TWO%2049%20TasWater.PDF>; Tasmanian Government (2018) and TasWater, *Agreement reached on TasWater*, <https://www.lqat.tas.gov.au/webdata/resources/news/Joint%20Media%20Release%20%20MoU%20State%20Govt%20%20TasWater.pdf>

## 5.0 Contact Details

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