

18 September 2020

Reference: jb:mm 200918
Enquiries: Ms J Bennett: 0428 690 935

NSW Productivity Commission

To whom it may concern,

Re: Continuing the Productivity Conversation - GREEN PAPER

The Central NSW Joint Organisation Board (CNSWJO) thank you for the opportunity to provide feedback to the Commission's draft recommendations on water in the Continuing the Productivity Conversation – Green Paper.

1. Key findings of NSW Productivity Commission

We understand that the key findings and draft recommendations of the Commission in relation to the Water sector are as follows.

The water sector's functions are spread across a number of agencies and corporations. That makes coordinated long-term decision-making harder. Integrated water cycle management can achieve better economic, social and environmental outcomes—but some barriers still remain to its uptake in New South Wales. Many regional water utilities face operational challenges because they are small and remote and cover large areas. Managing demand for water can ease supply pressures, but it can also have social and economic costs.

2. Summary of draft recommendations

- Improve governance by setting a vision and a plan for the sector, clarifying roles and responsibilities, and improving collaboration and cooperation (Recommendations 5.1-5.3).
- Remove unjustified barriers to water recycling to 'keep all options on the table' for safe, affordable and reliable water services (Recommendations 5.4-5.5).
- Improve the way regional utilities are funded, to target those that need it most and encourage efficient operation (Recommendation 5.6).
- Ensure the way we manage water demand maximises benefits for the community (Recommendations 5.7-5.8).

3. About the Central NSW Joint Organisation

Local Government Regional Joint Organisations (JOs) were proclaimed in May 2018 under the NSW Local Government Act 1993. The Central NSW Joint Organisation (CNSWJO) represents over 200,000 people covering an area of more than 50,000sq kms comprising the Local Government Areas of Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Oberon, Orange, Parkes, Weddin, and Central Tablelands Water.

Tasked with intergovernmental cooperation, leadership and prioritisation, JOs have consulted with their stakeholders to identify key strategic regional priorities. The CNSWJO Strategic Plan can be found here:

With safe, secure water essential for the growth and prosperity of our towns, to support agriculture and industry and sustain the environment, regional water security and network planning was identified as one of four regional priorities for the CNSWJO.

Central NSW Councils aim is for their region to be one of the 7 top contributors to National Gross Regional Product,¹ where agriculture is identified as the primary economic driver.

NSW Joint Organisation Collaboration

The CNSWJO has been engaging through the collaborative approach of the NSW JO Chairs Forum, they have been meeting every quarter since May 2018, with support through the Office of Local Government.

Key messages about the role of Joint Organisations

1. Joint Organisations in NSW are a network of 13 organisations established to strengthen collaboration and engagement between State and Local governments; and improve infrastructure and service delivery to regional communities.
2. Collaboration between the NSW Government and Joint Organisations means;
 - Active and engaged inter-agency collaboration,
 - A regional approach to dealing with a number of Local Government entities,
 - Support from Local Government when machinery of government changes are being implemented to maintain continuity, knowledge sharing and capacity building,
 - Financial savings by avoiding duplication, partnerships and facilitated aggregated procurement,
 - Better application and implementation of solutions, better relationships and corollary, and
 - The ability to assess and analyse potential solutions beyond traditional boundaries, systems and regions.
3. Joint Organisations identify government partners and key stakeholders to work with member Councils to deliver outcomes for towns and regional communities throughout NSW.
4. Each Joint Organisation has a Statement of Strategic Regional Priorities containing the programs, projects and initiatives that the Joint Organisation is to focus on.
5. There are examples of where Joint Organisations have transformed the way the NSW Government and local councils collaborate, plan, set priorities and deliver important projects in the regions.
6. Joint Organisations are intended to be a key mechanism through which the NSW Government delivers funding and programs to regional NSW. This intent is critical to delivering the collaborative function of Joint Organisations and the financial sustainability of Joint Organisations.
7. One such opportunity is the strategic planning and policy framework for the administration and delivery of urban water for regional communities in NSW.
8. The NSW Government's Safe and Secure Water Program offers funding to Councils and Joint Organisations for the development of Regional Town Water and Integrated Water Cycle Management strategies, and with the introduction of Regional Water Strategies and their impending implementation, there is an opportunity to collaborate to make confident and informed investment decisions regarding the State's water resources.

¹ Infrastructure Australia, Australian Infrastructure Plan 2015 cited in the Central NSW JO Strategic Plan page 9

4. CNSWJO RESPONSE TO DRAFT RECOMMENDATIONS

Taking the above into consideration, the CNSWJO makes the following comments in relation to the draft recommendations for the water sector.

Draft recommendation 5.1: Set a vision and a plan for water

Outline the long-term vision for the whole water sector (including rural water, wastewater, stormwater, flood management) and develop a plan to meet the challenges facing the sector.

The Central NSW JO (CNSWJO) represents Councils and their water utilities in the upper (unregulated) Macquarie Valley and throughout the Lachlan Valley. For many years the region has taken a regional and collaborative approach to urban water security.

The CNSWJO Board supports the characteristics identified in section 5.3 of the Green Paper that would improve efficiency and enable long term planning and investment in the water sector, particularly, the need for water planning to be more consultative and collaborative.

The CNSWJO long-term vision for strategic water management in regional NSW is for a more collaborative whole-of-Government approach with Local Government at the table as a partner with the State and Federal Governments. This is particularly needed in the areas of planning, regulation and infrastructure prioritisation where management has historically been siloed across multiple State agencies and Councils.

Development by the NSW Government of Regional Water Strategies particularly efforts to engage with Local Government to integrate urban water into these has been welcomed. Despite this, effective collaboration on water management at the regional level continues to be the missing piece.

The challenge is to ensure that Integrated Water Cycle Management planning required by Councils to demonstrate management of urban supplies is integrated into Regional Water Strategies and that Local Government have a seat at the table in the development of these key plans that will influence infrastructure planning and funding for communities into the future.

In consultations by the NSW Department of Primary Industries and the Environment (DPIE) with Central NSW Councils on the development of Regional Water Strategies, Councils continue to advocate for shared data and modelling and an implementation plan and collaborative governance structure to enable the delivery of options in the Strategies.

Transparency around the models used to determine the impacts of climate change and the identification of strategies to deal with it are an essential part of the Regional Water Strategies to ensure ongoing regional development.

The development of Regional Water Strategies and the anticipated State Water Strategy by the NSW Government is the ideal time to seek to have governance arrangements in place for both the implementation of these plans, but to deliver a range significant benefits afforded by intergovernmental collaboration through a new approach leveraging the Joint Organisations.

Where the region's focus has historically been on urban water, the Regional Water Strategies, planned Regional Town Water Strategies and in this region the raising of Wyangala Dam wall project presents an opportunity to consider, not just urban water, but water for productive uses including manufacturing and business, agriculture and mining in a whole of catchment approach.

Ensuring effective collaboration on water management at the regional level between multiple government agencies, Councils and Joint Organisations, Local Water Utilities and local and regional stakeholders, including in water reliant industries requires a willingness of Governments to engage in meaningful fit-for-purpose collaboration with processes co-designed to optimise outcomes in the strategic space.

Draft recommendation 5.2: Issue Statements of Expectations

Issue Statements of Expectations to state-owned water corporations to provide clear guidance on the Government's plans and direction.

The CNSWJO welcomes the concept of a Statement of Expectations in anticipation that this may assist communities where urban water supplies are provided through the state-owned bulk water supplier, WaterNSW.

An example is in the community of Oberon. WaterNSW owns the Oberon Dam and the water contained within it. Oberon Council is a licence holder and along with other users pays for an annual allocation to supply the township of Oberon with its only supply of drinking water.

The dam has been sitting at below 25% for some months now and has not benefitted from recent rain that has seen increased storage levels in other dams across regional NSW.

Historically Oberon has acquired a greater share of water from Oberon Dam during the establishment of the last water sharing plan and has been paying a significant cost per megalitre availability charge for water, including a portion of which it hasn't used. The cost per megalitre is well above that of Council's who are not supplied with raw water by a third party. While operating rules enable the banking of some untaken water, the operation of the comparatively variable restrictions of other users as Oberon Dam is depleted in dry times is of concern as it drives more stringent restrictions earlier for Oberon.

Oberon has been seeking water security information from its third-party water provider, however information on secure yield (the basis of sizing town water supplies in NSW) is not available and a request to provide this has been declined by the raw water provider. The provider also has not provided specification of what "secure" means under the Oberon Dam scheme. Dam depletion curves, which are available, can vary depending on operational decisions made by the third-party raw water provider and as climatic conditions vary. This was well evident across NSW at the peak of the last drought with dam depletion curves typically over a much shorter horizon than secure yield.

Having purchased a greater share of the water allocation within Oberon Dam and paid that availability charge for some years for water that has not been used (albeit some being banked), Council has now been approached by the third party provider about what Council can do in relation to other drought proofing projects for Oberon as well as options for some high cost additions to the Oberon Dam scheme that the raw water provider can do at Council's and other users cost.

Compounding the issue for Oberon is that Oberon Dam is an expensive scheme (approx. \$850 per ML availability for raw water whether used or not compared to around \$350 per ML for some Central NSW JO Council schemes and on top of that \$250 per ML for actual raw water consumed).

Oberon is seeking support for greater clarity of secure yield or at least relatable information for urban water, including the involvement of third party suppliers, and a review of appropriate restrictions and management practices in the specific circumstances, particularly a review of how sharing plans can be changed for customers who procure extra water for security purposes, where there are other users with multiple sources and variable restrictions across users. Council is of the view that "the third-party provider is providing security" is not enough on which to manage an urban area nowadays and Council's need a greater level of diligence and assurance.

In addition, Council is seeking a review of drought management, particularly around urban water supply security drawing upon lessons from the recent drought including all water providers and hopes this action arises from the State and Regional Water Strategies.

More broadly there are challenges around State-owned water corporations and their influence over water management that have been evident through the drought. An example has been where the Critical Water Advisory Panels have met in stressed catchments to address water shortages and solutions. Work of these panels has focussed on support by the State for State-owned dams. In the Macquarie catchment the CWAP

has provided no effective support for the towns of Orange and Bathurst on the unregulated Macquarie River. Oberon has been represented on the WaterNSW run Customer Advisory Group, though again, is just one of many users and one that uses a comparatively small amount of water. The issue here is the focus on drought support through the state-owned water corporation who's focus is on selling water. Where they don't own the water to sell – no one cares.

The challenge remains that WaterNSW does not prioritise town water over other water users. A Statement of Expectations to the state-owned bulk water supplier could assist.

Draft recommendation 5.3: Fight fragmentation in NSW water services

Bring together leaders from all key NSW water sector organisations to coordinate and deliver the vision outlined in the planned state water strategy.

Identify more permanent governance measures to solve the fragmentation of water responsibilities across New South Wales.

Draw on the experience of the Infrastructure NSW South Creek Sector Review to identify other areas in New South Wales that would benefit from integrated land use and water planning.

Currently LWUs are required to meet multiple reporting and data collection requirements through multiple agencies responsible for regulating LWU that they do not own. Rather than using this as an opportunity to collaborate with LWUs to achieve better results they tend to use this power as a regulatory stick, at worst, wielded inconsistently with at times significant financial impact on regional communities, who compared to their metropolitan brethren, have more costs as they need to provide more services and are rate capped.

The reform of the regulatory framework for the management of Local Government LWUs in regional NSW has been on the agenda for the past decade. While LG LWUs generally support regulation, it is widely recognised that the current Best Practice Framework is in need of review particularly as utilities have matured in their management through implementation of Integrated Planning and Reporting.

With this in mind, the CNSWJO Board has welcomed the development of the Regional and planned State Water Strategies.

Recent advice from DPIE is that the NSW Government is developing a strategic regional water policy framework to set and enforce clear rules for sharing water, plan for and deliver water infrastructure, ensure balanced access for users, and to plan for extreme events, including drought. This is needed and must include Local Government at the table in its development to ensure policy settings meet the needs of regional NSW.

The development of these strategies is the ideal time to seek to have governance arrangements in place for both the implementation of these plans, but to deliver a range of significant benefits afforded by intergovernmental collaboration through a new approach leveraging the Joint Organisations.

While recognition by DPIE that improved coordination is needed in water policymaking and planning is welcomed, the sector would benefit from a formalised governance and implementation structure to deliver on strategies and optimise outcomes in regional NSW.

As detailed in response to draft recommendation 5.1, the key message from the CNSW JO Board is the need for effective collaboration on water management at the regional level between multiple government agencies, Councils and Joint Organisations, Local Water Utilities and local and regional stakeholders, including in water reliant industries. This requires a willingness of Governments to engage in meaningful fit-for-purpose collaboration with processes co-designed to optimise outcomes in the strategic space. While this seems to be a sensible and simple idea – it is imperative when considering future droughts and yet for some reason has not emerged despite over a decade of this region providing feedback on the need for this type of collaboration and governance to this and previous enquires by the Productivity Commission and others.

There are examples of successful intergovernmental collaboration models operating in the Central NSW JO footprint in both Planning and Transport that include both State and Local Government developing and implementing State strategy. Effective use of collaboration will lead to a reduction in duplication, cost savings and other efficiencies. More advice can be provided on request.

An example in the water space is the Lachlan Valley Regional Town Water Drought Response Steering Committee formed to facilitate and guide collaboration between NSW government agencies, Lachlan Valley Councils, and water reliant industries to:

- Oversee the development, alignment and execution of plans and strategies to best utilise available water in Lachlan Valley LGAs and across the region in current drought conditions. This is to include the development of plans and strategies for recovery and recommencement of normal river and groundwater operations;
- Ensure plans and strategies consider the challenges and interests of relevant stakeholders, including commercial and industrial users;
- Ensure these plans and strategies are completed and executed in a timely fashion;
- Reconcile differences of opinion between stakeholders, and resolve issues as may arise;
- Align planning and response activities with longer term strategies in line with the Government's strategic objectives; and
- Inform and support activities supporting other communities in the region. ²

The opportunity is for the Steering Committee to also support the longer-term development of town water security and quality solutions across the region through the Regional Water Strategy not just to respond to the current drought emergency and to deliver on the State Water Strategy.

This Steering Committee has only met once. The challenge is maintaining the continuity for groups such as this- where the JO is willing to take on a governance and facilitation role

Local Councils as urban water managers in regional NSW are heavily invested in ensuring that the methodology and policy settings are right to ensure strategic management of water resources for their communities.

It is critical that ongoing collaboration continues between Councils and those State agencies with responsibility in the water space and that any high-level decisions made with respect to strategic water management for regional communities is informed by the expertise, on-the-ground knowledge and lived experience of utilities and the communities' they represent. This would provide a level of confidence for all levels of Government and the Minister in the design and implementation of the State Water and other strategies and methodologies across the state. Ideally this would be enabled by better timeframes and governance arrangements.

Where we are seeing the strategic framework coming into place the governance arrangements to make the strategies real are not there as yet. In the interests of long-term town water security, we must continue to build on this and be in a position where Local Government is a partner with the State in delivering the solutions.

² Lachlan Valley Regional Town Water Drought Response Steering Committee – Terms of Reference -June 2020

Draft recommendation 5.4: Improve wastewater pricing

Sydney Water should continue to work with IPART to estimate long-run marginal costs for its wastewater catchment areas and consider implications for pricing.

As a Regional Joint Organisation of member Councils who own and manage local water utilities in regional NSW, the CNSWJO Board is not in a position to comment on matters relating to metropolitan water service providers.

Draft recommendation 5.5: Engage on water recycling

Coordinate with state-owned water corporations to develop and implement a public engagement program for recycled water. Explore the establishment of a Demonstration Plant in Sydney to help people understand the water cycle.

CNSWJO member Councils learned a great deal in the last drought around multi-sourced supply and demand management and continue to implement initiatives aimed at reducing consumption in their communities. Faced with day-zero, a number of our communities have been leaders in the development of state-of-the-art stormwater harvesting systems and recycled water initiatives.

The CNSWJO Water Utilities Alliance hosted a regional workshop with Water Service Association Australia in December 2019 on their All Options on the Table report on recycled water for potable use and would welcome any work that will assist with community education on recycled water.

Draft recommendation 5.6: Assess alternatives for local water utilities

Identify and assess alternative models to help local water utilities meet quality and reliability standards.

Firstly, with respect to institutional arrangements, the CNSWJO Board support arrangements that maintain Local Government responsibility for the operation and management of water supply and sewerage services and infrastructure in regional NSW.

It opposes the transfer of council provided water supply and sewerage services to state owned water corporations or their privatisation and any recommendations made to aggregate non-metropolitan Local Water Utilities (LWU).

Local Government LWUs ensure an integrated and locally appropriate approach to water supply and sewerage management and optimal whole-of-community outcomes for their communities.

As noted in the Commission's paper, one-size-fits all solution to providing LWU in regional NSW is impractical because of the great diversity in geographical and socio-economic conditions across regional NSW. In the majority of cases, local systems are the most appropriate and cost-effective solution for regional communities.

The removal of water supply and sewerage functions from councils would have significant impacts on the financial sustainability of councils and on local and regional economies and employment.

However, there are great opportunities for resource and skills sharing amongst geographically closely linked water utilities that are yet to be optimised with the major barrier to this being the strategic framework and lack of inter-governmental collaboration that includes Local Government as a partner with a seat at the table in the development of strategy and policy in the water space.

We welcome recognition by the Commission of the work of the Centroc Water Utilities Alliance which, after a decade, continues to find success in delivering longer-term service quality for its members through its programming. Our member's LWUs and the communities they serve have realised significant cost benefits and efficiencies from collaborative programming.

Where this region can continue to deliver incremental value to the smaller LWUs and the communities they serve, the bigger value to be realised is through inter-governmental collaboration, not between our utilities but further up the Government management chain. This has been demonstrated through work in the Central NSW region to integrate urban water into the Regional Water Strategies.

The region continues to advocate to DPIE Water through the Joint Organisation's Chairs' Network for new ways of working collaboratively that would see greater cost savings and efficiencies in the delivery of services by LWUs in regional NSW notably in the areas of Integrated Water Cycle Management and in developing solutions to long standing challenges. These can be summarised as follows:

The strategic framework- Where some inroads are being made, currently modelling and planning for urban water security is done in isolation by Local Government and needs to be integrated into the State Government's strategic water planning.

The regulatory framework including best practice and drinking water quality management - Local Water Utilities (LWU) seek a less paternalistic approach that meets the needs of LWUs in managing their businesses, avoids duplication and onerous reporting and meets the Government's regulatory needs.

The funding framework - Quality secure water requires a funding framework that recognises that it is a basic human right.

Drought management- The unprecedented drought has demonstrated challenges, particularly for larger settlements, in navigating the strategic, regulatory and funding frameworks for urban water security. This is particularly the case for the towns of Orange and Bathurst on the unregulated river system.

Machinery of Government churn, culture & poor engagement- Joint Organisations and the Regional Organisations of Councils before them have been advocating about water for decades. The missing piece is effective collaboration on water management at the regional level.

The CNSWJO Board maintains that the question that should be asked is not about the institutional or structural arrangements for LG LWUs in regional NSW but rather how water is managed strategically between the State, Federal and Local Government. This is where the greatest gains can be made in the delivery of LWU services.

With the enabling of JOs to strengthen collaboration and engagement between State and Local governments; and improve infrastructure and service delivery to regional communities there is an opportunity for regional NSW to do business differently with the State and Federal Governments in regional water management.

With respect to quality of service delivery, LG LWUs operate under a comprehensive regime of health, environment and economic regulation within a stringent performance measurement framework outlined in the Department of Primary Industries and Environment– Water's Best Practice Management of Water Supply and Sewerage Framework.

In the past DPIE- Water's Performance Monitoring data shows assumptions regarding the performance of non-metropolitan LWU to be unsupported by empirical evidence with regional NSW water utilities performing well in terms of national standards.

Over the past 20 years, local water utilities across regional New South Wales have developed and matured to a point where, now, they represent world-class service delivery organisations, serving their communities, from within the communities. They have adapted to changes along the way, endured prolonged droughts, managed floods, storms and bushfires and for the most part continue to deliver services in a safe, secure, efficient, and affordable manner and have demonstrated their ability to identify challenges and implement necessary reform particularly given the challenges posed by the recent drought.

Councils in regional NSW have also made significant progress towards achieving the National Water Initiative's objectives of efficient and sustainable urban water services.

Again, inter-governmental collaboration with Local Government LWUs on co-design of a fit-for purpose regulatory framework that meets the needs of LWUs in managing their businesses, avoids duplication and

onerous reporting and that meets the Government's regulatory needs, for example, would enable a conversation about increased performance in the urban water space in regional NSW.

Recent experience in working on the Regional Water Strategies has shown the depth of knowledge that Local Government in this region has to inform any reviews of the strategic framework, noting that regional NSW LWU are a very different entity to their larger metropolitan brethren.

With respect to pricing, lower prices in LWUs reflect greater efficiency of operation due to economies of scope achieved within the local government environment.

Local Water Utilities in regional NSW have a responsibility to cover all costs and provide a positive return on investment to their local Council owner. The level of return is a matter between the water utility and the Council. This varies from community to community but is typically well below what would be required by the private sector.

The CNSWJO Board policy is that Councils can determine their own rates. The bigger problem is pricing and affordability for communities to pay for services. The answer is not to have communities living with constant boil water alerts as is the case in other States but rather to carefully manage assistance to communities that need it. Arguably the provision of quality secure water is a universal service obligation that needs to be recognised by all levels of Government.

With regard to Community Service Obligations, the CNSWJO Board agrees with the concept of a CSO payment to be targeted to remote communities or communities facing acute urban water risks and again suggest that this should form part of the broader strategic conversation about water management that would be enabled through inter-governmental collaboration. Collaborations of Councils in regional NSW cannot achieve this under the constraints of the Local Government Act in NSW and so State and Federal support is required.

In its 2016 report *Water Governance In Cities* (OPEC 2016) OPEC examines a wide range of issues in relation to the delivery of water supply in a number of OPEC member countries.

<https://www.oecd.org/environment/water-governance-in-cities-9789264251090-en.htm>

Of particular interest is chapter 3, *Mapping who does what in urban water governance*. While the report examines cities in a number of OPEC member countries, the size of all cities are all larger than any community in regional New South Wales. However, there are a number of models discussed, including alliances between local or municipal councils.

Irrespective of community size, the allocation of roles and responsibilities across various levels of government is widely discussed, with the role of central or sub-national governments being policy and regulatory setting. The role of monitoring, implementation of policy requirements and service delivery is widely allocated to local government or multi-local government organisations.

In addition to the governance mapping discussion, OPEC raises significant and important issues relating to inter-dependencies across all levels of government and the impacts of over-lapping roles and gaps in governance roles.

There is also the potential to look in greater depth at other jurisdictions on their approach where there has been interest expressed in Central New South Wales about water management in non-metropolitan Switzerland and its relationship to local governance.

The CNSWJO Board hopes it has made the point very clearly that it supports the Local Government ownership and management of LWUs in regional NSW and the Alliance model as the one that suits our region. Our key message in response to this recommendation is that the question that should be asked is not about the institutional or structural arrangements for LG LWUs in regional NSW but rather how water is managed

strategically between the State, Federal and Local Government. This is where the greatest gains can be made in the delivery of LWU services.

Draft recommendation 5.7: Monitor and refine scarcity pricing

Monitor the effectiveness and efficiency of the new Sydney Water scarcity pricing model in managing demand and use this to guide water demand management policy.

As a Regional Joint Organisation whose member Councils who own and manage local water utilities in regional NSW, the CNSWJO Board is not in a position to comment on matters relating to metropolitan water service providers.

Having said this, CNSWJO has considerable expertise through lived-experience of managing communities through high levels of water restrictions over the millennium and most recent drought and contemplation of “Day-Zero”.

Central NSW Councils have been involved both individually and collectively in valuing water for decades. Working collectively, this region has also developed advice on water restrictions where most communities in Central NSW are consistently on a low level of restriction reflecting the scarcity of water and its importance to industry. The region adopted a regime of restrictions developed in 2012 and recommended it to members, most of whom adopted these restrictions. At Level 6 closure of schools and various industries is affected. It is important to note that the modelling for this was based on a 50% reduction in water availability which frequently corresponded with a 50% drop in output for industries.

Lachlan Valley councils have been refreshing their approach which includes consideration at level 6 of closing various industries. Given the challenges for industry, both Orange and Bathurst have changed their approach to these restrictions when talking to community while having plans in the background that contemplate “Day Zero” and the management of the closure of business sector.

In a nutshell, regional communities contemplate “Day Zero” and the impact on productive water including the closure of industry or evacuation of a city in their response to drought. Our members have done work that considers the economic cost of this to NSW and the nation. This has included work undertaken by Treasury and DPC to go to the Expenditure Review Committee.

The communities of Bathurst and Orange provided extensive detail into this process which includes advice that the value of the cost of water restriction for urban communities needs to reflect the economic impact of levels 5 and 6 water restrictions. Bathurst have undertaken detailed work on the costs of closing industry in extreme drought. They have estimated the cost at level 5 at \$200,000 per year and at level 6 \$700,000,000 per year with a corresponding reduction in employment of 800 and 4000 jobs respectively. At Level 6 Bathurst uses around 3,300ML per year and at level 4 around 4,400ML per year. At Level 6 this becomes \$460,000/ML. For affected industries the value per mega litre is even higher.

It is accepted that the value of water to industry will be different to every community. Parkes have undertaken high level work dividing GRP by ML used and identified the value of water in Parkes is \$363K/ML and for Orange \$491K/ML. Typically the larger the community the greater the industry value, though there will be some exceptions. Also important is recognition that the regional economy is multi-tiered with smaller regional centres relying on the larger centres.

To put the potential impact of restrictions into perspective, in its Australian Infrastructure Plan 2015, Infrastructure Australia identified the Central NSW region as a significant contributor to the national economy with the potential to be one of the 7 top contributors to National Gross Regional Product,³ by 2031.

³ Infrastructure Australia, Australian Infrastructure Plan 2015 cited in the Central NSW JO Strategic Plan page 9

The CNSWJO has recently undertaken research on regional water value functions, valuing different hydrological outcomes under the Regional Water Strategies. This work has found that in Central NSW where the majority of communities have been faced with high levels of water restrictions over long periods of time:

- The impact of more stringent water restrictions should be shared by all residents. The option of allowing residents to pay a higher price to face fewer water restrictions is not generally supported within the community. Water is regarded as an essential service which should be equally available to everyone, so actual or perceived waste by an individual, impacts on the entire community.
- There is much greater willingness to pay to avoid higher level water restrictions. The imposition of water restrictions at and above level 3 creates a much higher level of awareness across the community of the value of water conservation. It also begins to impact beyond the residential level and at a broader economic level as water restrictions are placed on businesses which in turn further impacts on individuals. There is also a heightened sense of urgency to avoid more stringent restrictions, and so a greater willingness to pay to avoid these.
- Water security is often used as a point of difference between LGAs to promote and attract economic development and population growth. LWUs which invest heavily in their long term water security, or who work hard with their community to drive down per capita water usage, place a much higher value on water per kl compared to communities who are relatively relaxed about water use, or where water usage is heavily subsidised via general rates.
- The individual circumstance of each LWU varies significantly with regard to the cost of water. In some instances, water can simply be pumped out of shallow wells close to town and disinfected to make it suitable for potable use, a very inexpensive system in terms of water storage and treatment. By comparison other centres have to capture and store water in large Council-owned water supply dams, then pump this water long distances prior to extensive water treatment before distribution to urban users, resulting in a much more expensive water supply system from an asset value as well as daily operational cost perspective.
- In times of water shortage there are limitations on the capacity of LWUs to both purchase and provide water. In addition to the physical distance, the willingness or capacity of an adjacent LWU to supply water is driven by many factors including the production cost of water, issues associated with equity of supply and scarcity concerns from the community, who argue that a higher price should be imposed to act as a deterrent to excessive demand from struggling LWUs
- The willingness to pay for communities may be higher when water availability becomes critical and residents and businesses contemplate worsening conditions and/or an emergency scenario where regions run out of water altogether. These are real experiences for Regional NSW and were evident in the latest drought.
- Work needs to be undertaken that identifies the value of street trees and green spaces in determining the willingness of people to pay to ensure these survive in times of prolonged drought.
- The willingness to pay to avoid water shortages of residents and businesses is not static and would be expected to increase as shortages become more critical and community members become more aware of the issues surrounding water security in times of long-term drought.

- There can be changing levels of willingness to pay as water related issues progress to higher levels of restrictions and/or long-term economic impacts on communities and businesses relating to drought and climate change impacts.

The key message here is that it is critical that any water demand management policy that may arise from this recommendation that has implications for regional NSW LWUs must be developed in close consultation with Local Government, particularly in inland regions.

Any definition of water restrictions needs to be carefully considered and documented, reflecting the reality of the lived experience of non-coastal communities in regional NSW. This should include environmental, social and economic impacts.

Water and its scarcity are top of mind in Central NSW with many of our communities not out of the woods yet in terms of water security. As urban water managers our members are heavily invested in ensuring that methodologies and policy settings are right. It is imperative that ongoing collaboration continues between Councils and those State agencies with responsibility in the water space and that any policies are road-tested in regional NSW using lived- experience and real-world scenarios.

The CNSWJO Board would welcome the opportunity to provide further detail to the Commission on the work we have undertaken in this space.

Draft recommendation 5.8: Review and redesign NSW's Business Sustainability Index

Review NSW's Building Sustainability Index (BASIX) scheme to ensure it meets both environmental and economic objectives.

CNSWJO seeks early and collaborative engagement with Local Government in any review and redesign of the BASIX scheme.

Summary

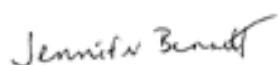
Local government is the front line of regional communities and a part of the solution for a sustainable region is a safe, secure and reliable water supply that supports population growth in our region and that will sustain business and industry into the future.

Our key message is that the missing piece is effective inter-governmental collaboration at the regional level in strategic water management.

In particular we would welcome the opportunity to talk to you about the work this region has done on urban water and the opportunity to have governance arrangements in place for the implementation of the Regional and State Water Strategies that could deliver significant benefits through intergovernmental collaboration.

Thank you for considering the information provided in this submission. Please contact Ms Jenny Bennett, the Executive Office of the Central NSW JO on 0428 690 935 should you wish to discuss further.

Yours sincerely,



Jenny Bennett
Executive Officer
Central NSW Joint Organisation (CNSWJO)