

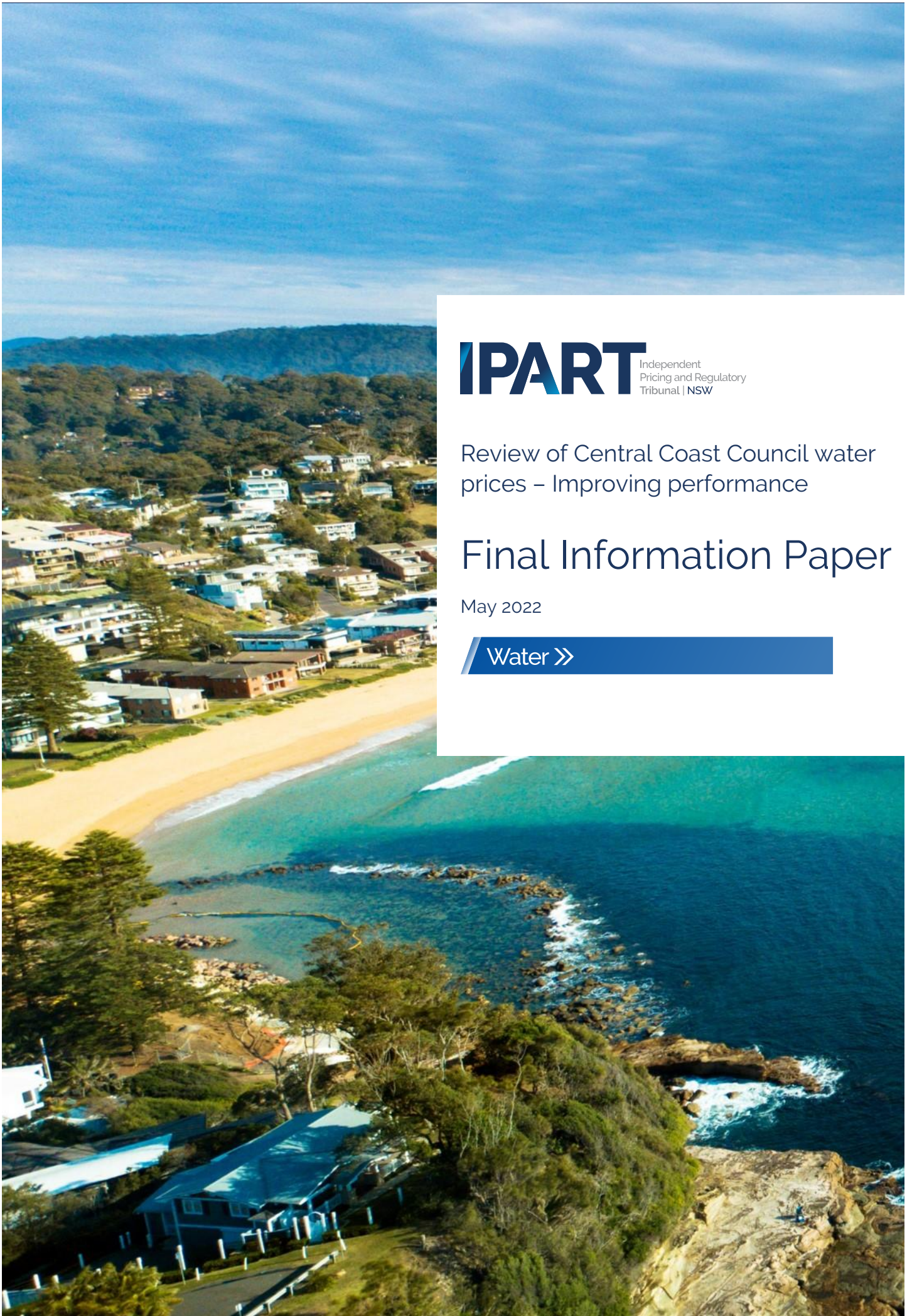


Review of Central Coast Council water prices – Improving performance

Final Information Paper

May 2022

Water >>



Tribunal Members

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Further information on IPART can be obtained from [IPART's website](#).

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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Promoting better performance and accountability

IPART sets the maximum prices Central Coast Council can charge its customers for the water, wastewater and other services provided by it as a Water Supply Authority.

IPART also sets the maximum percentage by which Central Coast Council may increase its general income each year through the local government rate peg or special variations.

To ensure it is clear which of Central Coast Council's responsibilities IPART is referring to, throughout this report:

- we refer to the Central Coast Council's functions as a Water Supply Authority under the *Water Management Act 2000* as '**CCC Water**'
- we refer to the Central Coast Council's local government functions under the *Local Government Act 1993* as '**the council**'.

Further information is available in our [Technical Paper – Regulatory background](#).

We have reviewed CCC Water's prices for its water-related services and have made decisions on the prices to apply for the 4 years from 1 July 2022 to 30 June 2026.^a Our review only considers prices and costs related to CCC Water. It does not consider those related to the council's general activities for which it charges local government rates, levies and other charges.^b

We consider our water prices will allow CCC Water to deliver good quality water and improve services to the community – now and in the future. This information paper focuses on improving accountability and performance.

In reviewing CCC Water's prices for water-related services, we saw ample evidence that CCC Water needs to improve its performance and increase its accountability to its customers and regulators. This evidence has come from our consultations with customers, our assessment of CCC Water's performance over the past 3 years, and our consultant's review of its strategic plans and asset management systems.

CCC Water has acknowledged that it needs to improve its performance and it has committed to measures that would improve accountability to customers. It accepted our draft recommendations and welcomed a review of progress after 2 years.¹

Our final recommendations are broader than the draft recommendations.

^a As part of our review we must consider certain matters under the *IPART Act 1992 (NSW)* – detailed information is available in our [Technical Paper – Regulatory background](#).

^b IPART can also review the council's income from rates, but this is a separate review through the special variation process.

To drive the improvements that are needed, we recommend that CCC Water:

- Publish an implementation plan for the commitments it set out in its submission to our Draft Report with timelines and customer contact points.
- Publish some performance measures and information that are currently available and address or relate to concerns raised by stakeholders.
- Develop a set of performance measures that match the community's preferences and expectations. These measures should address the results of the customer consultation we undertook for our Draft Report and may be refined through further customer consultation by CCC Water.
- Put systems in place to publicly report on its performance against these measures every year, starting in 2022-23. This should be provided in a format that suits customer preferences.
- Continue to improve its strategic plans and asset management systems so that they reflect good industry practice.

Our recommended timeframe for CCC Water's accountability improvements



We also recommend that the NSW Government:

- Requests IPART undertake a review in 2024-25 to investigate CCC Water's performance and progress in implementing our recommendations to improve its performance and accountability.
- Considers the merits of developing and implementing a more rigorous regulatory framework for monitoring and compliance of CCC Water. We note that other major water utilities in NSW are subject to an operating licence, which may be one option to consider.

We undertook targeted stakeholder engagement on this topic. Stakeholder views on our draft accountability and performance measures varied between support, a preference for stronger measures, and a lack of trust that improvements in performance will happen. A summary of our community consultation a feedback is presented in Box 1.1.

Box 1.1 Summary of engagement and feedback

IPART conducted 2 surveys covering accountability and performance

Our [October 2021 survey](#) received over 1,000 responses. Around 80% of respondents said they did not feel confident that CCC Water will spend money on what is most needed to improve services. Our [March 2022 survey](#) received 83 responses. 62 respondents did not agree that CCC Water would meet its regulatory obligations and customers' expectations; and 65 respondents agreed that customers have a role in monitoring CCC Water's performance.

We sought submissions in 2 rounds

Of 241 submissions to our [Issues Paper](#) (175) and [Draft Report](#) (66), around 75% indicated dissatisfaction with CCC Water's performance. Submissions expressed:

- opposition to paying for perceived council mismanagement
- concern that customers would pay more for the same level of poor-quality services
- a desire for improved service levels and productivity before paying higher prices.

We undertook 2 public hearings including a targeted workshop

Stakeholders raised the issue of poor water quality at the first public hearing (26 October 2021). CCC Water outlined that poor water quality can be experienced where there are dead-end mains causing a build-up of sediment and dirty water. This is particularly a problem in the Davistown-Saratoga area and has led to an increase in complaints. Transcript and recordings [here](#).

At the second public hearing (5 April 2022) we discussed legislative frameworks for regulating CCC Water and why licensing was not currently an option. At the workshop as part of this public hearing, we heard about concerns with service levels, including financial management, and about the type of information that matters to customers. Transcript and recordings [here](#).

Customer research undertaken by CCC Water

CCC Water engaged Woolcott Research to collect customer feedback which formed part of its pricing proposal. Woolcott Research found that:

- although customer satisfaction is high for water reliability, around 10% to 23% of customers are dissatisfied with water quality.
- 20% to 30% of customers reported being affected by wastewater overflows into the community and around 43% to 55% reported being concerned about overflows into the environment.

Sources: Woolcott research report, *Central Coast Council IPART Community Consultation*, April 2021, accessible in CCC Water, *Pricing proposal Technical paper 1 – engaging with our customers and community*, September 2022, pp 58, 68, 71.

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Our recommendations are:

3.	That CCC Water, by 31 October 2022, publishes an implementation plan for improving its performance, accountability and transparency. At a minimum, this should include:	6
	<ul style="list-style-type: none"> - expected timing to develop its Accountability Strategy, its Customer Charter and improvements to asset management - expected timing and methods of customer engagement. 	
4.	That CCC Water, by 30 September 2022, publishes the performance information and strategic documents it has committed to. This should be presented in a clear and accessible form on the website and include:	10
	<ul style="list-style-type: none"> - the metrics in Figure 1.1 in our <i>Information Paper – Improving performance</i> - results from 2017-18 onwards. 	
5.	That CCC Water prepares and publishes an annual performance report by 31 October each year, commencing in 2023. This should set out its performance against measures that reflect the community's preferences. It should be endorsed by the council as an accurate reflection of its performance.	14
6.	That the NSW Government authorises IPART to investigate and report publicly on CCC Water's:	16
	<ul style="list-style-type: none"> - performance as a Water Supply Authority - progress implementing management and procedural improvements. <p>We recommend that this investigation commence in the second half of 2024.</p>	
7.	That the NSW Government considers the merit of amending the way CCC Water is regulated to:	18
	<ul style="list-style-type: none"> - implement a more targeted and robust framework for CCC Water, such as an operating licence - strengthen performance and accountability - remove any resulting redundant regulatory requirements on CCC Water. 	

A complete list of our Final Report decisions and recommendations is available in our [Final Report Summary](#).

1 A multi-level approach to improve accountability

Our recommendations use several approaches to improve the accountability of CCC Water. They include steps that CCC Water, IPART, and the Minister for Water can take to make a difference.

In response to our Draft Report, many submissions re-iterated concerns we heard earlier that they do not trust CCC Water to spend the funds as intended, or that customers will see adequate service improvements for the additional charges. Several submissions called for stronger measures than our draft recommendations to hold CCC Water accountable. In particular:

- PIAC and other stakeholders called for legislative change to implement a licensing framework, under which CCC Water would be issued an operating licence²
- PIAC recommended that, in lieu of a licensing framework, IPART recommend the Minister request us to undertake annual audits on CCC Water's performance, beginning in 2023³
- Some stakeholders prefer the water business to be corporatised, with the view that this would lead to structural changes that would be more conducive to improving performance.⁴

We have taken this feedback into account in developing our recommendations.

1.1 CCC Water should publish an implementation plan for improving its processes

CCC Water has made several commitments to improve its performance and accountability to customers, including to:⁵

- establish an Accountability Strategy, which will focus on information provision from a customer centric lens
- develop a revised Customer Charter that will include measurable outcomes to be developed community input
- continue to improve its asset management strategies
- undertake further customer consultation to develop an outcomes-based reporting framework.

A published implementation plan would increase confidence and accountability

We consider that CCC Water's commitment is a positive step and we understand its proposed changes are in the early stages of development. To improve certainty and to clarify expectations for the community, we recommend that CCC Water develop and publish, by 31 October 2022, an implementation plan for the proposed steps and outputs. The implementation plan should at a minimum, include:

- the purpose and objectives of the steps and documents
- expected timing for the development, review and publication of documents
- expected timing and form for customer engagement and feedback opportunities.

A published implementation plan for CCC Water's commitments would improve our confidence, and the confidence of its customers, in implementation being achieved. It may also help CCC Water to focus on the necessary planning and implementation tasks and it would help us assess CCC Water's progress in 2 years' time.

Our recommendation is:

- 3. That CCC Water, by 31 October 2022, publishes an implementation plan for improving its performance, accountability and transparency. At a minimum, this should include:
 - expected timing to develop its Accountability Strategy, its Customer Charter and improvements to asset management
 - expected timing and methods of customer engagement.

1.2 CCC Water should adopt a new reporting framework and begin reporting available metrics

Performance reporting allows customers to keep CCC Water accountable

One way to provide a level of accountability to the community is for CCC Water to report its performance.

CCC Water should develop a new set of performance measures that reflect the community's preferences. We consider more frequent public performance reporting on measures that are important to the community would help to:

- provide assurance to customers that their money is being appropriately spent
- enhance transparency and accountability for CCC Water's performance
- drive CCC Water to improve its performance, communication and customer engagement.

Having input into CCC Water's service levels and access to information about its performance against these levels of service would empower the community and give this feedback to CCC Water.

Customers have shown a desire to receive more information

Our engagement with stakeholders has shown that many customers would like to receive regular performance information from CCC Water. Since publishing our Draft Report, we have engaged through a survey, a public workshop about performance and accountability, and received submissions from stakeholders.

Stakeholders were able to indicate their preferences for the type of information they are interested in, and the frequency and method of receiving it. Box 1.2 summarises the responses, and in sections below we present stakeholders' ideas in more detail. We have used this feedback to shape our recommendations.

Box 1.2 Summary of feedback about accountability measures

Some stakeholders supported our Draft recommendations

- The Avoca Beach Community Association strongly supported the recommendations and noted additional metrics that should be reported on, including geographical data.
- 65 survey responses (of 83) agreed that the community has a role to play in holding CCC Water accountable. 49 respondents preferred to receive an annual report (of the 4 options available in the survey), but there was also support for other options (respondents could select multiple choices)

Others found reporting is inadequate and preferred licensing or corporatisation

PIAC and The Community Environment Network consider it is inadequate to ask the community what reporting they want from CCC Water.

PIAC recommended we urgently request a move to a licensing framework. The Community Environment Network also sought a recommendation for licensing and argued that a move to corporatise CCC Water would achieve a higher level of accountability than our proposed 2-year review.

Some submissions wanted other conditions imposed, for instance that there be no rate increase until accountability measures are in place, and/or until service had improved. One respondent asked why IPART has the power to increase rates but can only recommend a process for accountability.

Other ideas for better accountability

Other ideas submitted by stakeholders include

- A published Priority Improvement Plan with critical focus areas, project timeframes and futureproofing of quality water and drainage systems
- Minimum KPIs for accountability with ratepayers' money
- Engagement via email or with rates notices
- Full and open disclosure of performance and finance.

Some respondents do not believe that CCC Water will improve its performance.

Sources: Avoca Beach Community Association, submission to IPART's Draft Report, April 2022, p 1; PIAC submission to IPART's Draft Report, April 2022, pp 5-6; CEN submission to IPART's Draft Report, April 2022, pp 1-2; J. Cain submissions to IPART Draft Report April 2022; Anonymous submission to IPART Draft Report (W22/532); Anonymous submission to IPART Draft Report (W22/542); Anonymous submission to IPART Draft Report (W22/624), April 2022; Anonymous submission to IPART Draft Report (W22/636), April 2022; IPART Information Paper, Central Coast Council water prices *Results of survey on our draft decisions*, 29 April 2022, pp 9-11.

CCC Water has committed to publish performance information on its website and publish an Annual Report

In response to our Draft Report, CCC Water advised it would:⁶

- publish performance information and strategic documents on its website
- publish an annual performance report based on its customers' preferences

We support CCC Water in these commitments.

CCC Water can publish existing metrics to improve transparency

CCC Water listed the types of information that it intends to publish on its website in addition to an annual report. This included:⁷

- drinking water standards, sampling, non-conformances and improvements
- water outage information
- sewer overflows and non-conformances
- compliance with its Customer Charter, community engagement and complaint resolution and handling
- water yield, production and consumption.

Based on the response to our consultation, we consider CCC Water should also publish some additional performance information including on complaints, assets, operating result and water losses. CCC Water collects information on many metrics that are published or reported elsewhere. For instance, CCC Water reports performance information to the Department of Planning and Environment (DPE) to be published along with information from other Local Water Utilities.^c To improve access for its customers, CCC Water should provide some of these metrics in a clear format on its website, along with relevant contextual information.

Publication of this existing data in the short term would help inform customers and improve their understanding of service levels and standards. It would also support CCC Water's objective of improving accountability. Over time, we expect CCC Water to update the information it publishes to ensure it reflects customer preferences, identified through robust community engagement.

Figure 1.1 shows the indicators that we recommend CCC Water publish. This covers the topics that it already proposed, and some additional indicators that we consider may be of value to its customers. We have selected indicators that are already collected and reported on, for ease of publication in the short term. We note that customers have described various other types of information they would find useful, and CCC Water should further consult on and develop reporting frameworks accordingly.

^c This is available online on the Department of Planning and Environment website, under [LWU Performance monitoring data](#).

CCC Water should provide these metrics, beginning with data from 2017 where available, to allow an understanding of trends and natural year-on-year fluctuations. This will provide useful context to allow stakeholders to assess improvements in the coming years. We consider that reporting of metrics for the last 5 years is reasonable. This represents the time since CCC Water was formed through amalgamation of the former Wyong and Gosford council.

Figure 1.1 Metrics CCC Water should publish in the short term

Performance area	Performance metrics
 <p>Service reliability</p>	<p>Results since 2017-18 on:</p> <ul style="list-style-type: none"> • Water – number of planned outages • Water – number of unplanned outages • Average duration of water interruptions • Water sampling/results • Water quality complaints, per 1,000 properties
 <p>Customer</p>	<p>Results since 2017-18 on:</p> <ul style="list-style-type: none"> • Compliance with commitment in Customer Charter, including: <ul style="list-style-type: none"> – answering calls within 2 minutes and private social media messages within 4 hours – responding to urgent and non-urgent issues within 1 and 5 business days respectively – keeping customers updated • Number of connected properties • Typical residential bills • Number of customers in payment plans and/or financial hardship assistance
 <p>Asset and financial management</p>	<p>Results since 2017-18 on:</p> <ul style="list-style-type: none"> • Main breaks per 100 km • Sewerage breaks and chokes, per 100 km • Operating results per property, water and sewerage
 <p>Environment and public health</p>	<p>Results since 2017-18:</p> <ul style="list-style-type: none"> • Sewer overflows, dry weather, per 100km of main • Sewer overflows, wet weather, per 100km of main • Number of wastewater overflows reported to the environmental regulator, per 100km of main
 <p>Water conservation</p>	<p>Results since 2017-18 on:</p> <ul style="list-style-type: none"> • Water yield • Water production • Water consumption • Real water losses (kL/km/d)

Our recommendation is:

4. That CCC Water, by 30 September 2022, publishes the performance information and strategic documents it has committed to. This should be presented in a clear and accessible form on the website and include:
- the metrics in Figure 1.1 in our *Information Paper – Improving performance*
 - results from 2017-18 onwards.

1.3 CCC Water should consult with its community to develop the reporting framework

We expect CCC Water to undertake deeper engagement with its customers to better understand the information that is important and meaningful to them and to use this to inform its ongoing performance reporting. We expect this engagement would cover, at a minimum:

- the type of information CCC Water will provide
- through what medium it is provided (e.g. report, webpage, emails)
- how frequently it is provided (e.g. annually or more frequently).

CCC Water should also consult on its service level targets to ensure that they are at a level that customers find reasonable and at a cost that is acceptable to customers.

Our consultant Frontier Economics (Frontier) recommended CCC Water develop a new set of performance measures that reflect customer preferences and the levels of service they expect. In its assessment of CCC Water's performance against existing output measures Frontier found that CCC Water has not done a Customer Service Standards survey since 2012,⁸ and that performance outcomes are aligned to current performance measures rather than targets set out by the community. For this reason, Frontier noted that the gap between the service levels experienced by customers and the service levels customers expect is unclear.⁹ We support this recommendation from Frontier.

CCC Water has advised it will engage with its customers to identify the outcomes that matter to them.¹⁰ Outcomes-based reporting is considered best practice and is likely to be more meaningful to customers, CCC Water, and regulators. This is also consistent with the expectations we have set in our review of how we regulate water utilities, and we understand other major NSW water utilities are shifting to an outcomes-based framework. Details of that review are available on IPART's [webpage](#).

Outcomes are typically supported by metrics and other data to allow measurement and monitoring. In our Draft Report, we provided examples of performance metrics that CCC Water could consider reporting on.¹¹ We asked stakeholders to tell us the type of information that would help them understand the levels of service they were receiving from CCC Water.

We provide the results of our engagement below as a guide to CCC Water as well as some additional recommendations. These examples draw on advice from Frontier and measures that other water businesses typically report against.^d We note that our engagement was of limited depth and with a relatively small sample size that may not fully reflect the view of CCC Water customers.

What type of information do water customers want to see?

Our Draft Report provided some examples for CCC Water to consider in its engagement. The results of our engagement work since the Draft Report should also inform CCC Water's engagement.

Sydney Water and Hunter Water reporting requirements are a sound basis

PIAC suggested we use existing reporting obligations in Sydney Water's and Hunter Water's operating licences to form the basis of our recommended performance reporting structure.¹² We consider this is an appropriate starting point to inform CCC Water's engagement and development of its reporting framework.

CCC Water's commitments broadly reflect the information reported by Sydney Water and Hunter Water. The reporting requirements for Sydney Water and Hunter Water are set out in detail in Reporting Manuals developed by IPART. They include:

- requirements for annual compliance and performance reporting, including information on environment, drinking water quality, compliance with service standards set out in the licence
- requirements for periodic reporting, including to other regulators.¹³

Additionally, Sydney Water's and Hunter Water's operating licence conditions set out some service performance metrics to ensure a minimum level of performance, and customer consultation:¹⁴

- water continuity standards, which set out a minimum (and optimum) number of properties that are unaffected by unplanned interruptions in a year
- water pressure standards, which set out a minimum number of properties that should be affected by fewer than 12 water pressure failures in a year
- dry weather wastewater overflow standards, which set minimum number of properties that are affected by either one or no more than three uncontrolled sewer overflows, in a year
- requirements for developing and engaging with a customer advisory group.

Hunter Water's operating licence also includes standards for individual properties, such as the number of properties that experience 3 or more unplanned water interruptions or uncontrolled wastewater overflows in a year.¹⁵

^d We drew on performance reporting examples from the Australian Bureau of Meteorology's [Urban national performance report](#) and Essential Services Commission's [Water performance reports](#), and reports that Hunter Water and Sydney Water prepare as a condition of their operating licences.

Sydney Water and Hunter Water report compliance against these standards each year including about reasons for failures to comply.

We consider these are appropriate measures that CCC Water can consider as it develops a framework to reflect its own customers and particular circumstances.

We note there are different service targets in the 2 operating licences that we review every 5 years as part of the operating licence regime. We recommend that CCC Water work with its community to develop appropriate service target levels.

Other information that may be meaningful to CCC Water stakeholders

We recommend CCC Water consider the metrics set out in Table 1.1 when it engages with its customers on performance reporting. Table 1.1 shows the measures recommended in our Draft Report and the additional measures stakeholders identified in our subsequent engagement (and not in Figure 1.1 above). The information most commonly requested through our engagement was service level information by area or location, and complaints metrics.

As discussed above, poor water quality is of particular concern in the Davistown-Saratoga area. Frontier recommended that CCC Water start to report on total water quality complaints per 1,000 properties received from this area. This would allow IPART and other stakeholders to understand trends in this part of CCC Water's network.¹⁶ We have included this recommended performance measure in Table 1.1 below.

CCC Water is aiming for outcomes-based reporting, which would differ from some of the standard metrics used. However, these metrics provide a useful basis to inform discussion, develop outcomes, and to measure and report on progress.

We consider the metrics set out in Figure 1.1 above and Table 1.1 below should inform CCC Water's development of a comprehensive suite of performance metrics that meet customers' information needs.

Table 1.1 Recommended measures to inform CCC Water's ongoing engagement

Information stakeholders want to see	IPART's additional suggestion
<p>Customer statistics</p> <ul style="list-style-type: none"> • Bills paid on time and percentage of dollars in arrears. 	<ul style="list-style-type: none"> • Number of connected properties • Typical residential bills • Number of customers in payment plans and/or financial hardship assistance
<p>Service level</p> <ul style="list-style-type: none"> • Geographical information or 'hotspots' of poor service. • Complaints data, including: <ul style="list-style-type: none"> – time taken to respond to complaints – time take to resolve complaints – number of complaints about blocked stormwater drainage resolved – Complaints numbers by key areas • Better information of events • Reasons for change in water quality/colour/poor quality 	<ul style="list-style-type: none"> • Total complaints per 1,000 properties for both water and wastewater and percentage resolved • Number of water pressure complaints per 1,000 properties • Properties with more than a specified number of unplanned interruptions per year (i.e. similar to standards in HWC licence)

Information stakeholders want to see	IPART's additional suggestion
<ul style="list-style-type: none"> Number of properties with blocked stormwater drainage 	
<p>Asset management</p> <ul style="list-style-type: none"> Stormwater drainage blockages per 1,000 properties Location of where works are done, e.g. by ward or postcode Publish a 'Priority Improvement Plan' with critical focus areas, project timeframes and futureproofing of our Coasts quality water and drainage systems 	<ul style="list-style-type: none"> Capital project delivery
<p>Financial indicators</p> <ul style="list-style-type: none"> A comparison of inflation with rates increases Breakdown of employee type/role 	<ul style="list-style-type: none"> Income per property Operating cost per property Capital cost per property Ratio of net debt to equity
<p>Environment and public health</p> <ul style="list-style-type: none"> Consumption by comparison with other/different households and previous consumption – bar chart on bills Better real time information (including signage) when overflows impact/pollute recreational waterways Environmental water sampling 	<ul style="list-style-type: none"> Net greenhouse gas emissions Number of water quality complaints specifically for Davistown and Saratoga region Compliance with Australian Drinking Water Guidelines – microbial guideline values in the water supply & chemical guideline values Compliance with EPL concentration, load limits

Sources: Stakeholder input to our Public Hearing, IPART, *Central Coast Council Water price review Public Hearing Transcript – Session B*, 5 April 2022, pp 12, 13, 27, 28, 31; *Anonymous submission to IPART Draft Report (W22/624)*, April 2022; *Avoca Beach Community Association, submission to IPART's Draft Report*, April 2022; *Community Environment Network submission to IPART's Draft Report*, April 2022, pp 1-2; IPART Information Paper, *Central Coast Council water prices Results of survey on our draft decisions*, 29 April 2022, pp 9-10; IPART analysis.

How customers want to receive information

CCC Water has stated it will prepare an annual performance report and to publish performance information on its website. We consider that to best accommodate its customers, CCC Water should consult with them about how they prefer to receive the information, in terms of timing and form.

In our engagement we also asked how customers would like to receive information. The results of our engagement should inform CCC Water's consultation. From our workshop, survey and submissions, we heard:

- From our survey, the most popular preference for form of engagement (from 4 options) was an annual report (49 responses), followed by social media (33), specific forums on water (30), and updates at Council meetings (24). Some responses (in free text) suggested email (2), information with rates notices (2), information graphics, and open and full disclosure of finance and performance.¹⁷
- From our workshop:
 - There was some preference for emails, website information and information provided with bills or rates notices.
 - Participants noted that not everyone has email so a range of methods should be used.
 - Some participants were concerned to keep costs low and questioned whether the benefits of reporting will outweigh the costs. They noted that flyers would be a more expensive option and increase environmental costs.¹⁸

- From public submissions there was some support for annual reporting.

Public submissions to our Draft Report, full recordings and transcripts of our [workshop](#), and a summary of the [survey results](#) are available on our website.

1.4 CCC Water should publicly report on performance measures every year

While we consider that CCC Water should develop its performance approach based on customer preferences, this reporting should be at least on an annual basis.

Annual performance reporting is a common approach to maintain accountability and aligns with other reporting mechanisms in place. Publishing an annual performance report would ensure a regular output with comparable metrics over time. This will also ensure CCC Water focus on the indicators and trends in performance every year.

An annual performance report should include meaningful contextual information, performance metrics, reasons why any performance targets have not been met, and improvement strategies and actions. We also consider an annual performance report should be approved by the council before publication. This ensures the council remains accountable for performance of the organisation.

Our recommendation is:

5. That CCC Water prepares and publishes an annual performance report by 31 October each year, commencing in 2023. This should set out its performance against measures that reflect the community's preferences. It should be endorsed by the council as an accurate reflection of its performance.

1.5 We should review CCC Water's progress in 2 years' time

We are committed to helping improve the service that CCC Water customers receive. We think more could be done to ensure CCC Water is accountable for its spending and for the quality of services provided to the community. CCC Water has made a commitment to its customers to reform its performance and accountability framework. We are encouraged that it has committed to this initiative and consider a review of CCC Water's progress in making these changes is appropriate.

We consider it would be beneficial to investigate, review and report on CCC Water's performance after 2 years of the 2022 Determination. Such a review would help to hold CCC Water to account for improving its performance. It would also provide a further incentive for CCC Water to act on the recommendations and provide some feedback to the community about the improvements it expects to see over the coming years.

It could also inform CCC Water of further improvements that need to be made in the lead-up to our next pricing review. Finally, it would inform decisions on the need for any longer-term approaches, to ensure service levels meet the communities' expectations.

CCC Water welcomed this review.¹⁹ This approach received some support from stakeholders in submissions.²⁰ However, others thought this recommendation was insufficient and preferred a licensing framework or that CCC Water move to corporatisation.²¹

PIAC proposed annual auditing powers (if there is no licence)

PIAC considered that our draft recommendation was not sufficient. It preferred that a licencing regime be implemented, but in lieu of this, suggested that we recommend the Minister request us to annually audit CCC Water's performance, starting in 2023.²²

We agree that this would provide an additional level of accountability to CCC Water and confidence to the community. However, on balance, we decided not to request annual auditing powers at this stage but intend to consider this if we are given a review after 2 years. This is because:

- We consider it preferable that a newly elected council would have time to make sufficient progress embedding changes. This is unlikely to occur by July 2023, when the first audit would take place.
- We are recommending that the Minister for Water consider broader regulatory changes to improve accountability, which may include auditing powers.
- Our proposed review after 2 years could consider a similar level of detail. This would put pressure on CCC Water to improve performance and would also provide information to inform regulatory settings going forward, including whether there should be annual auditing powers.

Terms of reference to investigate performance after 2 years

For the reasons above, we recommend the Minister for Customer Service give IPART a terms of reference to investigate CCC Water's performance and progress. The terms of reference would require CCC Water to provide us with the necessary information to assess and publicly report on CCC Water's performance over the 2 years to June 2024. We anticipate this might cover its customer engagement, public reporting, improvement in service levels and governance and procedural improvements.

We recommend that this investigation commence in 2024. This recommendation is in line with our Draft Report.

Our recommendation is:

6. That the NSW Government authorises IPART to investigate and report publicly on CCC Water's:
- performance as a Water Supply Authority
 - progress implementing management and procedural improvements.
- We recommend that this investigation commence in the second half of 2024.

1.6 Regulatory reform to improve accountability mechanisms

CCC Water's service performance is currently overseen by DPE's regulatory framework for the 84 local water utilities (LWUs) in NSW. This regulatory framework is based on DPE's 'best-practice management guidelines' which includes guidance on:²³

- long-term strategic and financial planning
- pricing
- performance reporting
- demand management and water conservation.

However, we note that DPE is currently reviewing its regulatory framework with a view to implementing changes. In March 2022, it released a [new draft regulatory framework](#) for consultation.

DPE's regulatory framework for LWUs is designed to cater to the broad range of rural and regional LWUs in NSW. However, CCC Water is a major water utility by national standards and by far the largest LWU in NSW. The next largest LWU (Shoalhaven City Council) is less than half the size of CCC Water in terms of customers and volume of water supplied.^e

For a utility of the size, scale and location of CCC Water, a more targeted and comprehensive regulatory framework may promote lasting and ongoing improvement in CCC Water's performance and accountability. It would also be more commensurate with the size and responsibilities of CCC Water. We consider that a more formal regime for performance and accountability is likely to lead to a better overall outcome for customers in the long-term.

^e CCC Water serves about 140,000 customers and supplies about 31,000 megalitres of water (ML) each year. Shoalhaven serves 50,000 customers and supplies about 15,000 ML per year. Other large retail water utilities in NSW – Sydney Water and Hunter Water – are subject to an operating licence. Hunter Water is about twice the size of CCC Water while Sydney Water is significantly larger. Hunter Water services about 280,000 customers and supplies 64,000 ML per year, while Sydney Water services about 2.1 million customers and supplies 524 000 ML per year.

Creating a formal structure for standards, auditing and penalties

A more robust regulatory framework would provide a formal structure around which standards are reviewed, systems and performance information audited, and customers and other stakeholders consulted on overall service levels and expectations, amongst other factors. Any regulatory settings should be designed with sufficient flexibility to allow the regulator to adjust its regulatory approach as appropriate to the utility and its circumstances.

A targeted and robust regulatory framework does not in itself guarantee better or optimal performance by any utility. It does, however, provide oversight and incentives for a utility such as CCC Water to improve its accountability. Factors such as governance, corporate structure, key business systems and processes and resources all play a part in achieving and improving performance.

We recommend the NSW Government investigate the merits of a more comprehensive and targeted regulatory regime for CCC Water. This investigation may include:

- the likely impacts on CCC Water's performance and accountability
- any additional costs to CCC Water, government or other regulators of implementing and operating a different framework
- any savings that might be made by potentially removing other regulatory requirements made redundant.

The other major urban water utilities in NSW, Sydney Water and Hunter Water, are subject to an operating licence, issued by the NSW Government and administered by IPART. This licensing regime provides a framework for customer and stakeholder consultation, independent public reviews of the licence conditions and standards and annual reporting and auditing. The current licensing regime for Hunter Water provides a reasonable basis upon which a review of CCC Water's regulation could commence.

In its submission to our Draft Report, PIAC recommended that "IPART uses the existing operating licence conditions and performance reporting requirements for Sydney and Hunter Water as the basis for creating an equivalent set of measures for CCC Water" and that this should be done as a matter of urgency.²⁴

The Community Environment Network also argued that CCC Water should be licensed like other large water utilities so that IPART can exercise the same regulatory scrutiny it does over other major utilities. It also suggested that further reforms be undertaken where CCC Water is overseen by a board of directors.²⁵

One other submission supported CCC Water adopting a corporate structure, more independent of the council.²⁶ Others queried why the regulatory framework for CCC Water differs from the other utilities IPART regulates, and why there are no stronger powers in place to improve accountability.²⁷

Further improvements to performance and governance

There is also merit in the council further reviewing the overall governance and operating model of CCC Water. Other large Australian water utilities, such as Sydney Water and Hunter Water are typically run independently and overseen by a board of directors. Changes to the governance, business model and structure of CCC Water may provide longer term benefits for service levels, efficiency and sophistication.

Some submissions to our Draft Report advocated for a move to a corporatised water utility, and that this should be kept local.

In response to our Draft Report, CCC Water submitted that it had engaged consultant KBR to provide advice and recommendations to deliver the most sustainable future for both the council and the water and wastewater business. KBR analysed 3 options to reduce the regulatory framework or move to a corporate structure. The council received and noted the KBR report and authorised the CEO to investigate options in the report as well as any other options that they may identify as part of this analysis.

CCC Water added it has not yet had the opportunity to complete a cost benefit analysis, risk assessment or a SWOT (Strengths, Weaknesses, Opportunity and Threats) analysis to determine the future outcome and the best option for reform.²⁸

Recommendations

7. That the NSW Government considers the merit of amending the way CCC Water is regulated to:
 - implement a more targeted and robust framework for CCC Water, such as an operating licence
 - strengthen performance and accountability
 - remove any resulting redundant regulatory requirements on CCC Water.

2 We consider CCC Water needs to improve its performance

For this review we have assessed CCC Water's performance over the last 3 years (the 2019 determination period) and found that in some areas it is not delivering the services we expect. For example, we:

- asked independent consultants, Frontier Economics and Mott MacDonald (Frontier) to compare CCC Water's performance against a set of output measures that were set in the last review and found that it has not met some of these measures
- asked Frontier to review CCC Water's strategic plans and asset management systems. Frontier found that although improvements are being made, CCC Water's plans and systems do not yet reflect good industry practice
- ran two community surveys to find out what CCC Water's customers think of the services they are receiving. Around 40% of customers told us they are not satisfied with the quality of water services they are receiving²⁹
- considered feedback in submissions to our Issues Paper and Draft Report where customers expressed concern about service levels, and that CCC Water is not spending money in areas where it is most needed.³⁰

For these reasons, we consider that there is considerable scope for CCC Water to improve its performance and accountability.

In response to our Draft Report, CCC Water acknowledged that improvements are needed, and set out some steps it is taking to address them. This includes:

- accepting Frontiers' recommendations to improve internal processes and asset management, and
- allocating some additional funding it has requested through this review for improvement programs and asset improvements.

We expect the measures recommended in this paper should improve the accountability of CCC Water to ensure it continues to improve and deliver services to meet regulatory requirements and customer expectations.

The sections below explain our findings about service level in more detail.

2.1 CCC Water should continue improving strategic plans and asset management systems

As part of our review, we asked Frontier to review CCC Water's strategic plans and assess management systems. Frontier found that CCC Water is in the process of preparing and updating its long-term strategies, asset management frameworks, processes, systems, and decision-making frameworks. Although improvements are being made, systems that do not yet reflect best practice may lead to:

- investment choices that are not as efficient as they could be
- a lack of clarity about how investments and expenditure have a clear link to customer outcomes.³¹



Asset management is the process of minimising the long-term cost of delivering services to customers

We recognise that CCC Water is moving towards good industry practices to ensure that customer requirements are factored into CCC Water's planning and systems, and that these requirements are met at reasonable cost. We expect CCC Water to continue to develop its asset management systems. Based on advice provided by Frontier, we have found several areas where we consider CCC Water could continue to move towards best practice, outlined in Box 2.1.

CCC Water submitted that it intends to adopt these recommendations and work on improving services. We consider this is a positive step. As outlined in section 1.1, we recommend that CCC Water publish an implementation plan for improvements, including timeframes, to improve transparency and accountability. This would include improvement to asset management systems, customer charter, and publication of strategic plans.

Box 2.1 Recommendations to improve CCC Water's strategic plans and asset management systems

In its assessment of CCC Water's strategic plans and asset management systems, Frontier recommended that CCC Water should:

- clearly demonstrate how its strategy and long-term objectives meet community objectives and expectations
- report its progress against the Asset Management improvement plans as detailed in the Asset Management Strategy
- develop an endorsed, published customer charter with a set of measurable customer outcomes and reporting
- incorporate risk metrics into a dashboard so that it always has a contemporaneous view of its asset-related risks, especially those from its critical assets
- link the prioritising framework to determining the optimal level of capital expenditure to ensure that only the investments linked to the regulatory drivers and customer outcomes are funded
- adopt a more standardised approach to risk and opportunity estimating and a unit cost database that expands upon the networks costing approach into treatment projects
- at Gateway 1, document the minimum requirements to be met through the different stages and the approval responsibilities to provide greater transparency and guidance. These requirements should then be monitored through the project delivery stages by the CCC Water capital expenditure committee.

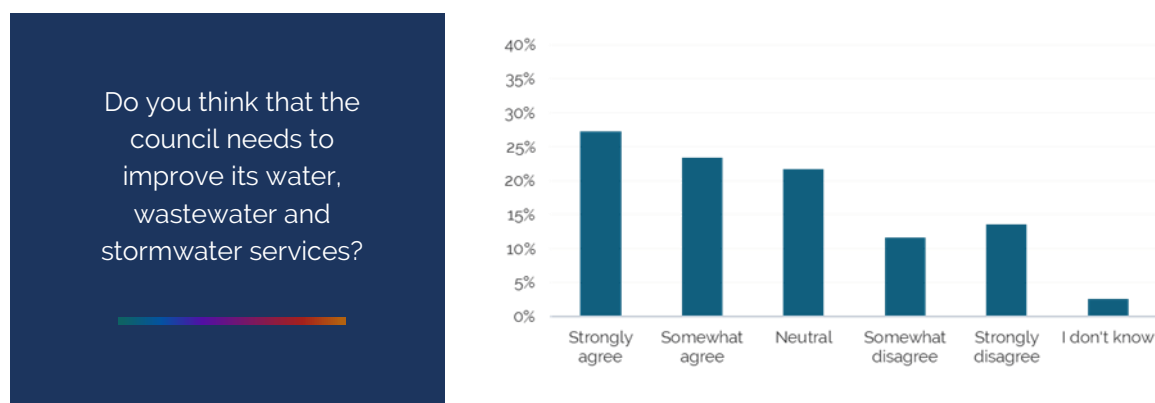
Source: Frontier Economics & Mott MacDonald, *Central Coast Council Water Expenditure Review – Final Report*, 22 April 2022, p 12.

2.2 Stakeholder feedback to our review indicated concerns with service levels

In our engagement, many stakeholders have outlined concerns about poor quality and services. Mostly, stakeholders did not want to pay higher charges when they were receiving poor service, although there are a few exceptions to this - mainly relating to funding improved stormwater services. Some stakeholders submitted that they had not had issues with performance.

We consider it is important that CCC Water undertake robust community engagement to understand its customers' views on service level expectations and service levels they are experiencing. This should include annual satisfaction surveys to identify changes in preference or experiences.

Figure 2.1 Summary of survey responses regarding service levels



Source: IPART, *Information Paper response to our survey on Central Coast Council water prices*, December 2021, p 1. Survey undertaken in October 2021, 1,067 total responses.



Source: IPART Information Paper, *Central Coast Council water prices Results of survey on our draft decisions*, 29 April 2022, pp 9-10. Survey undertaken in March 2022, 83 total responses

2.3 CCC Water has not met targets for some output measures

Currently we monitor CCC Water's performance by requiring it to report against output measures that cover its water, wastewater and stormwater services. Output measures inform us and the community of how the business is tracking against service measures set for each determination period. CCC Water's performance against these measures is usually reported to and considered by IPART at each price review (around every four years). Each output measure includes a target that the business aims to meet.

As part of the current pricing review, CCC Water reported that while it had met or exceeded some output measure targets, there were several targets it is not currently meeting, these being:

- the number of water quality complaints received
- the frequency of unplanned water supply interruptions
- wastewater overflows reported to the regulator
- wastewater odour complaints

- non-compliance with Environment Protection Licences, largely related to annual pollutant load from wastewater treatment plants.³²

We asked Frontier to assess CCC Water's performance against output measures over the 2019 determination period. [Frontier's report](#) which outlines its detailed analysis of CCC Water's performance against its output measures is available on our website. We agree with the findings made by Frontier. The sections below summarise our key findings.

CCC Water has not met water quality complaints targets over the last 3 years

Over the last 3 years CCC Water has consistently not met its target for water quality complaints (which relate to the colour, taste and odour of water). CCC Water also did not meet its targets for frequency of unplanned interruptions in 2019-20 (see Table 2.1).^f It appears that poor maintenance practices, including a focus on short-term cost reductions, has been a key driver for poor water quality performance and unplanned water supply interruptions.³³

For the 2022 Determination, CCC Water proposed large increases to its operating and capital cost allowances to address these water service quality issues. While we did not approve all the costs that CCC Water proposed, we have decided to substantially increase CCC Water's cost allowances to enable CCC Water to make improvements in this area (see our [Information Paper - Operating and capital costs](#) for more information).

Table 2.1 CCC Water's performance against water output measures

Output measure		2019-20	2020-21	2021-22
Water quality complaints per 1000 properties	Target	9	8	8
	Actual	11.7	9	9
Average frequency of unplanned interruptions per 1000 properties	Target	115	115	115
	Actual	127.9	114.2	115
Water main breaks per 100km of main	Target	16	16	16
	Actual	12	10.2	12
Compliance with Australian Drinking Water Guidelines – microbial values (%)	Target	100	100	100
	Actual	100	100	100
Compliance with Australian Drinking Water Guidelines – chemical values (%)	Target	100	100	100
	Actual	100	99.7	100

Legend: ■ green highlighted cells indicate target met, ■ red highlighted cells indicate target not met

Source: Frontier Economics & Mott MacDonald, [Central Coast Council Water Expenditure Review – Final Report](#), April 2022, p 146.

^f CCC Water notes that three instances of elevated metal concentration were due to sample contamination upon collection which caused it to not meet its output measure for Australian Drinking Water Guidelines – chemical guidelines in 2020-21. See CCC Water Pricing proposal to IPART, September 2021, p 44.

CCC Water met 2 of its 5 targets for wastewater performance

Over the last 3 years CCC Water has consistently not met its target for wastewater overflows, which can cause significant damage to the environment and pose public health risks.⁹ CCC Water also did not meet its targets for wastewater odour and compliance with Environment Protection Licence (EPL) concentration limits in 2 out of 3 years (see Table 2.2).^h This relatively poor performance against wastewater odour targets relates to poor management and maintenance of CCC Water's wastewater treatment plants.³⁴ As discussed above, we decided to substantially increase CCC Water's operating and capital cost allowances, but by less than CCC Water proposed. We expect a higher cost allowance will enable CCC Water to improve its maintenance practices and management of its sewage treatment plants.

Table 2.2 CCC Water's performance against wastewater output measures

Output measure		2019-20	2020-21	2021-22
Wastewater overflows per 100km of main	Target	32	30	28
	Actual	31	27.5	28
Wastewater overflows reported to the environmental regulator, per 100km of main	Target	1.6	1.5	1.4
	Actual	2.9	2.5	2.5
Wastewater odour complaints per 1000 properties	Target	1.7	1.7	1.5
	Actual	2.2	1.6	1.6
Wastewater main breaks and chokes per 100km of main	Target	35.6	34	32
	Actual	32.8	30.5	32
Compliance with EPL concentration, load limits	Target	Yes	Yes	Yes
	Actual	No	No	TBC

Note: ■ green highlighted cells indicate target met, ■ red highlighted cells indicate target not met.

Source: Source: Frontier Economics & Mott MacDonald, *Central Coast Council Water Expenditure Review – Final Report*, April 2022, p 149.

¹ CCC Water, *submission to IPART's Draft Report*, April 2022, p 8.

² PIAC, *submission to IPART's Draft Report*, April 2022, pp 1-2; Community Environment Network *submission to IPART's Draft Report*, April 2022, p 2.

³ PIAC, *submission to IPART's Draft Report*, April 2022, p 2.

⁴ Community Environment Network, *submission to IPART's Draft Report*, April 2022, p 1; Anonymous, *submission to IPART's Draft Report (W22/563)*, April 2022.

⁵ CCC Water, *submission to IPART's Draft Report*, April 2022, pp 35-36.

⁶ CCC Water, *submission to IPART's Draft Report*, April 2022, p 34.

⁷ CCC Water, *submission to IPART's Draft Report*, April 2022, p 34.

⁸ Frontier Economics & Mott MacDonald, *Central Coast Council Water Expenditure Review – Final Report*, April 2022, p 42.

⁹ Frontier Economics & Mott MacDonald, *Central Coast Council Water Expenditure Review – Final Report*, April 2022, p 43.

¹⁰ CCC Water, *submission to IPART's Draft Report*, April 2022, pp 9, 34.

¹¹ IPART, *Draft Information Paper - Improving performance*, March 2022, p 11.

¹² PIAC, *submission to IPART's Draft Report*, April 2022, pp 1-2.

¹³ IPART, *Hunter Water Reporting Manual Operating licence 2017-2022*, July 2018; IPART, *Sydney Water Reporting Manual Operating Licence 2019-2023*, November 2019.

¹⁴ Hunter Water, *Operating Licence 2017-2022*, cl 3.3 and cl 5.4; Sydney Water, *Operating Licence 2019-2023*, cl 5.1, 5.2, 5.3; 6.6.

⁹ CCC Water must report such incidents to the Environmental Protection Authority (EPA).

^h Pollutant load and concentration limits, and maximum daily volume of treated effluent discharged to the ocean outfalls are specified in the EPL.

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- ¹⁵ Hunter Water, *Operating Licence 2017-2022*, cl 3.3.2, cl 3.3.3.
- ¹⁶ Frontier Economics & Mott MacDonald, *Central Coast Council Water Expenditure Review – Final Report*, April 2022, p 156.
- ¹⁷ IPART, Information Paper, *Central Coast Council water prices – Results of survey on our draft decisions*, 29 April 2022, pp 10-11.
- ¹⁸ IPART, *Central Coast Council Water price review Public Hearing Transcript – Session B*, 5 April 2022, pp 12, 13, 27, 28, 31.
- ¹⁹ CCC Water, submission to IPART's Draft Report, April 2022, p 8.
- ²⁰ Avoca Beach Community Association, submission to IPART's Draft Report, April 2022, p 1; Community Environment Network, submission to IPART's Draft Report, April 2022, p 2.
- ²¹ PIAC, submission to IPART's Draft Report, April 2022, pp 5-6; Community Environment Network, submission to IPART's Draft Report, April 2022, p 1.
- ²² PIAC, submission to IPART's Draft Report, April 2022, pp 1-2.
- ²³ NSW Government, Department of Water and Energy, *Best-Practice Management of Water Supply and Sewerage Guidelines*, August 2007.
- ²⁴ PIAC, submission to IPART's Draft Report, April 2022, pp 1-2.
- ²⁵ Community Environment Network, submission to IPART's Draft Report, April 2022, p 2.
- ²⁶ Anonymous, submission to IPART's Draft Report (W22/563), April 2022.
- ²⁷ Anonymous, submission to IPART Draft Report (W22/542), April 2022.
- ²⁸ CCC Water, submission to IPART's Draft Report, April 2022, pp 63-64.
- ²⁹ IPART, *Information Paper response to our survey on Central Coast Council water prices*, December 2021, p 1.
- ³⁰ IPART, *Information Paper response to our survey on Central Coast Council water prices*, December 2021, p 3; IPART Information Paper, *Central Coast Council water prices Results of survey on our draft decisions*, 29 April 2022, pp 9-10.
- ³¹ Frontier Economics & Mott MacDonald, *Central Coast Council Water Expenditure Review – Final Report*, 22 April 2022, p 46.
- ³² Frontier Economics & Mott MacDonald, *Central Coast Council Water Expenditure Review – Final Report*, 22 April 2022, pp 144-153.
- ³³ Frontier Economics & Mott MacDonald, *Central Coast Council Water Expenditure Review – Final Report*, 22 April 2022, p 146.
- ³⁴ Frontier Economics & Mott MacDonald, *Central Coast Council Water Expenditure Review – Final Report*, 22 April 2022, p 151.