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Mr Matthew Hardy
Indicator review team at HARC
Via email to harcnprreview@harc.com.au

Dear Matthew

Submission to the review of the Urban National Performance Reporting Framework reporting themes and indicators

Thank you for the opportunity to provide a submission to the Bureau of Meteorology's (BOM's) review of the Urban National Performance Reporting Framework (Framework) reporting themes and indicators, managed by HARC.

IPART is the licence and economic regulator in NSW for Hunter Water, Sydney Water and WaterNSW. We are the economic regulator for Central Coast Council, Essential Water (Broken Hill), and Water Administration Ministerial Corporation. We are also the licence regulator for private water utilities under the *Water Industry Competition Act (NSW) (WIC Act)*. This submission addresses the issues in the *Framework indicator review - Submission guide* that are most pertinent to IPART's current roles and responsibilities.

IPART's 2019 submission¹ to the review of the Framework also touches on many of the issues raised in this review and should be considered alongside this submission.

Issue 1 – The relevance of existing reporting themes and indicators

As an independent regulator, IPART plays a key role in promoting economic efficiency and driving performance improvement in NSW's three monopoly public water utilities. In principal, we support collecting and publishing data where the principles of good regulatory practice are applied and reporting obligations are the minimum necessary to achieve the Framework's objectives. However, it is not clear to what extent the Framework has been able to achieve these objectives to date. We encourage the BOM to assess the effectiveness of the Framework in improving utilities' performance and informing stakeholder's decision making, communicating the outcomes, and ensuring that there is comparable performance benchmarking of water utilities across Australia to inspire 'competition by comparison'.

¹ IPART submission to the Review of the National Urban Water Utility Performance Reporting Framework, February 2019, <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/licensing-public-water-business-licence-compliance-working-papers-2019-urban-npr-framework-review-project/ipart-submission-to-the-review-of-the-national-urban-water-performance-reporting-framework-15-february-2019.pdf>

While the relevance of reporting themes and indicators must be considered in the context of driving improved performance in public water utilities, the communication and commentary that arises from the publication of performance data is also important in achieving outcomes. Further consideration of post publication management of the information may also be useful in maximising the Framework's effectiveness.

In regard to existing or proposed themes and indicators, we encourage the BOM to take this opportunity to thoroughly test the purpose and usefulness of all data and indicators as part of this review to ensure that the costs being imposed on water utilities do not outweigh the benefits to customers and taxpayers that are derived from collecting and reporting under the Framework.

On occasion we have used some of the current financial indicators to consider how NSW regulated utilities' overall cost efficiency compares to utilities in other jurisdictions at a high level. However, we consider that further refinement is required in order for the dataset to achieve the review's stated objective of facilitating clear comparison and benchmarking of key aspects of water service provider performance.

The primary purpose of such a dataset would be to:

- ▼ Undertake high-level comparison of utilities' performance across jurisdictions. For example, to compare information on service delivery, bills, and financial sustainability, and to paint a broad picture of performance.
- ▼ Perform reliable benchmarking of productivity and expenditure. For example, the data could be used to compare how energy costs compare across utilities, after taking account of idiosyncratic factors.

Reviewing the information that is collected to increase the comparability and consistency, would allow for more reliable productivity benchmarking, and drive performance improvement.

In 2018, we engaged a consultant to review and analyse publicly available datasets for use in future IPART benchmarking programs for the water industry. Our consultant's analysis identified the following 2 improvement opportunities. We would be happy to work with BOM to improve information collected for other themes.

Opex disaggregation would be useful for benchmarking

Disaggregated expenditure and financial data in operating expenditure (opex) would allow stakeholders to undertake detailed performance benchmarking. It is also important that such disaggregated data is underpinned by consistent data definition and reporting. Opex is currently reported as an aggregate figure, and this would be more useful for benchmarking purposes if costs are disaggregated by inputs – such as chemicals, energy, labour, and administration. Such a reform could be undertaken in an incremental manner given the potential complexities involved.

Reporting on the number of strata units could aid benchmarking cost and performance

Information that allows stakeholders to correct for the key factors which drive differences in cost and performance across the utilities would be useful. For example, more transparency on the proportion of properties that are strata titled and stand-alone would provide clarity on the number of connected properties. This data is important as a denominator to estimate a range of productivity measures.

We also consider that customer satisfaction indicators could be added to the indicator set. Information on customers' satisfaction with their water utility would enable regulators and policy makers to benchmark the performance of utilities in achieving good outcomes for customers. While licensed utilities are required to meet customer service obligations, meeting these obligations does not necessarily mean customers are satisfied. For Sydney Water, Hunter Water, and the Central Coast Council, we have adopted the survey developed by the Victorian Essential Services Commission to collect information on customer satisfaction.²

A combination of qualitative measures (such as perceived performance by its customers) and quantitative measures (such as the number of complaints received) with guidelines for conducting customer satisfaction surveys, consistent with existing surveys conducted by regulators, would ensure results are nationally comparable.

Issue 2 – The basis for reporting

It is not clear that there are sufficient benefits to include private utilities³ in the Framework at this stage. We recommend that these private utilities, whether under or over 10,000 customers be excluded until benefits can be clearly established.

NSW's largest private water utility, Altogether Pty Ltd, will shortly reach a total customer base of around 10,000 customers (across multiple schemes) which would mean that they would be required to report under the current Framework. The proposed change to capture water utilities with customer numbers under 10,000 would capture a number of other private water utilities licensed under the WIC Act.

These private water utilities develop small bespoke schemes for specific purposes for customers including private developers and the City of Sydney. They include industrial water schemes such as the Orica groundwater recycling scheme, the Kooragang Island recycling scheme and the Rosehill recycling scheme, purpose built to service specific local industrial needs. They also include schemes for residential and small business buildings and house and land developments such as Central Park, Green Square and Barangaroo where they provide local treatment of sewage or stormwater and supply recycled water for specific end-uses within the locality. These bespoke water utilities provide a commercial offering that is not currently offered by the incumbent public water utility⁴ and the benefit of collecting data from these utilities for benchmarking is less clear.

² IPART, Water Utility customer satisfactory survey results, December 2020, <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/licensing-administrative-customer-satisfaction-indicators/fact-sheet-water-utility-customer-satisfaction-survey-results.pdf>

³ 35 private water utilities hold NSW network operator and retail supplier licences under the *Water Industry Competition Act 2006* (NSW) (WIC Act) as at 31 January 2021.

⁴ These schemes provide drinking water and sewage services but also recycle sewage within the site to provide customers with a recycled water service not offered by Sydney Water at this time.

In addition, unlike public utilities that currently report on the Framework indicators, there is a level of competition for the market that drives performance of private utilities. Hence, the reporting of Framework indicators is less likely to improve performance of these private utilities.

The current NSW reporting requirements for the private water utilities are largely designed to monitor safe operation and compliance with other conditions of their licence to minimise risk to public health and the environment. We collect up to 9 indicators from each private utility including data on assets, number of property connections and volume supplied or collected to monitor the growth of the private water utilities market and meet our statutory requirements. This information is published on IPART's website annually.

The small size of these businesses means that further reporting requirements may result in a disproportionate cost to the business and their customers and the benefits of providing data is limited.

Issue 3 – Alignment with jurisdictional reporting practices

We consider IPART's current reporting requirements to be aligned with the Framework in terms of the scope and timing of reporting. Reporting obligations are specified in each of the utility's operating licence and the supporting reporting manual. We collect additional indicators from the public water utilities (up to 19 indicators) in the areas of asset, environment, water quality and quantity to measure compliance with specific performance standards or to meet statutory reporting requirements.

Collaboration with other data collecting bodies may amplify the overall value of the datasets. For example, data sharing between BOM and other data-collecting organisations may enhance the completeness and value of the dataset owned by the agencies.

Issue 4 – Data quality

Regular audits have contributed to good data quality and we found that most of the data is reliable and accurate. However, improvement in the definitions of indicators could further improve the consistency and quality of data across different utilities.

Some of our audits identified ambiguity in the definition of some indicators. Simple and clear definitions of indicators would contribute to good data quality. We recommend that the definitions of indicators be reviewed at regular intervals to consider whether further refinement is required. Advice should then be provided to all reporting utilities to clarify the indicator definitions or a reminder on how some of the 'problematic' indicators should be interpreted. Regular update of the definition handbook should also be considered.

Cost associated with undertaking audits

A risk-based approach to audit requirements could minimise the cost of audits by efficiently focusing on more complex indicators or those that are used by regulators to make key decisions. Reporting of simple scheme metrics does not require regular audit verification.

We currently audit water resources, assets, customers, environment and health indicators on a 3-year rotation as part of our annual compliance audit. The approximately cost for annual Framework indicators audit for Hunter Water and Sydney Water is provided below:

Audit cost component	\$ (excl. GST) per utility per year	Comment
Auditor cost	5,000	Ranges from \$4,300 to \$5,600 in the last 2 years.
IPART cost	750	Project management cost.
Total	5,500	

Note: We undertake Framework indicator audits as part of our larger annual compliance audits.

We request the utilities to undertake an audit on the financial and pricing indicators with an external auditor every 3 years. Our involvement in this audit is minimal.

We recommend that the review further assess data collection and audit costs from utilities to consider the impact of the current reporting requirements.

IPART's contact officer for this submission is Christine Allen, Director Regulation and Compliance, contactable on 9290 8412.

Yours sincerely

19/02/2021

X 

Liz Livingstone
Chief Executive Officer
Signed by: Liz Livingstone