



Notice

16 July 2015

Shire of Dumbleyung

2014 OPERATIONAL AUDIT AND ASSET MANAGEMENT SYSTEM REVIEW

The Economic Regulation Authority (**ERA**) has published the 2014 operational audit (**audit**) and asset management system review (**review**) report, and the post-audit and post-review implementation plan, for the Shire of Dumbleyung's (**Shire**) water services licence WL16.

- [2014 Audit and Review report](#)
- [2014 Post-Audit and Post-Review Implementation Plan](#)

Action by the ERA

The ERA is very dissatisfied with the effectiveness of the Shire's asset management system for the water services works covered by the licence. The review report has disclosed a number of asset management deficiencies that need to be promptly addressed. Accordingly, the Shire is required to bring forward the completion date for the actions in the post-review implementation plan from 30 June 2016 to 31 December 2015.

The ERA has decided to appoint an independent inspector to, in January 2016, conduct an assessment of the effectiveness of the Shire's asset management system, and the condition of the water services assets. The decision on any further compliance action by the ERA, such as reducing the period of time until the next review, or serving a notice under section 31(1) (failure to comply with licence) of the *Water Services Act 2012* will be made after the receipt of the inspector's report.

The ERA is satisfied that the Shire has demonstrated an adequate level of compliance with its licence conditions, and has decided to retain the period of time until the next audit at 36 months. The next audit will cover the period from 1 December 2014 to 30 November 2017, with the report on the audit to be provided to the ERA by 28 February 2018.

BACKGROUND

Audit

The audit report disclosed a total of 12 non-compliances, of which seven non-compliances relate to various obligations under the *Water Services Code of Conduct (Customer Service Standards) 2013 (Code of Conduct)*, one non-compliance relates to not submitting annual performance reports on time, one non-compliance relates to not maintaining a compliance register, and three non-compliances are consequential



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to the failure to comply with the applicable legislation.¹

The auditor also performed a controls assessment of 56 licence obligations that were not rated, because no relevant activity took place during the audit period. The assessment resulted in 49 licence obligations being rated D (no controls present) because the Shire has not developed processes to support the obligations. These obligations are addressed by two recommendations in the Shire's post-audit implementation plan.

The ERA considers the majority of non-compliances with the Code of Conduct relate to relatively minor administrative issues that require the Shire to amend its complaints handling processes to fully comply with the Code of Conduct, develop processes to review bills at the request of its customers,² and make prescribed information available to customers. These administrative issues involve overlaps between other legislation applicable to local government water licensees and the Code of Conduct; that appear to impose an unnecessary regulatory burden on the licensees.

The ERA notes the Department of Water is currently conducting a review of local government water service licensing, the purpose of which is to identify ways that the regulation of small local government water licensees could be simplified. With regard to the *Water Services Code of Conduct (Customer Service Standards) 2013*; if the ERA identifies any remaining instances of regulatory duplication, they will be put forward for consideration when the Code is next reviewed.

The post-audit implementation plan provided by the Shire shows the actions to address the recommendations are due to be completed by October 2015.

Review

The auditor has rated 10 of the 12 asset management components as ineffective; the exceptions were Asset Creation/Acquisition and Environmental Analysis. The ERA does not agree with the auditor's rating of B2 (effective with room for improvement) for Environmental Analysis. The review has disclosed significant issues with the Shire's recycled water scheme. Notwithstanding that the Shire discontinued using the scheme in 2009, the decision by the Department of Health to withdraw its approval of the scheme demonstrates the Shire was not be able to comply with the Department's recycled water guidelines during the review period.

The ERA is very concerned about a number of issues that have been disclosed in the review report, including:

- The poor condition of the Shire's recycled water assets.
- Failure to conduct regular condition assessments of the sewerage and recycled water assets, and to record the condition in the Shire's asset register.
- Out of date risk assessments for the sewerage scheme, and not conducting regular reviews of the risks related to the scheme.
- Not having a contingency plan or emergency procedures to cover major or significant risks; this was

¹ Sections 27 and 29 of the *Water Services Act 2012* require the licensee to comply with applicable legislation. The Shire's non-compliance with the Code of Conduct has resulted in a contravention of sections 27 and 29. Also, clause 5.3 of the licence requires the Shire to comply with the Code of Conduct.

² The Shire bills its customers for sewerage services through the rates; the *Local Government Act 1995* makes provision for customers to have their rates bill reviewed, and adjusted if required.



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also an issue in the previous review, in 2011.

- Inadequate capital expenditure planning; the Shire is not collecting sufficient sewerage rates to cover the future costs of replacing or refurbishing underperforming assets.³

The auditor states that the scheme is in reasonable working order. However, the ERA considers that the Shire needs to urgently address the more strategic issues identified in the review, particularly with relation to asset maintenance, risk management, contingency planning, and capital expenditure planning in order to raise the standard of the asset management system to an acceptable level.

The auditor made 10 recommendations in the review, of which nine recommendations address process deficiencies. The post-review implementation plan prepared by the Shire states that all except one of the recommendations will not be completed until 30 June 2016. The ERA does not agree with the proposed dates, and requires the dates to complete all 10 actions be brought forward to 31 December 2015.

The ERA has also decided to exercise the powers available under sections 40, 41 and 210 of the *Water Services Act 2012* to appoint an independent inspector to, in January 2016, conduct an assessment of the Shire's asset management system, and the condition of the Shires sewerage and recycled water assets. A decision about the period of time until the next review, and whether the ERA needs to take any further compliance action with respect to the Shire's asset management system, will be taken when the inspector's report has been received.

For further information contact:

General Enquiries

Paul Reid
Economic Regulation Authority
Phone: 08 6557 7900
Email: records@erawa.com.au

Media Enquiries

Tracy Wealleans
Economic Regulation Authority
Phone: 0428 859 826
Email: communications@erawa.com.au

³ The review report states that the Shire is only collecting sufficient revenue to cover the annual operating costs of the sewerage scheme, with any surplus being transferred to the sewerage reserve fund.