



Notice

21 July 2016

Shire of Morawa

DECISION - ASSET MANAGEMENT SYSTEM REVIEW PERIOD

The Economic Regulation Authority (**ERA**) has decided to reduce the interval of time until the next asset management review (**Review**) of the Shire of Morawa's (**Shire**) water services licence WL24. The next Review will cover the period from 1 December 2014 to 30 November 2016 with a report due to the ERA by 28 February 2017.

BACKGROUND

The previous Review covered the three years ending on 30 November 2014. The 2014 Review report disclosed four ineffective components of the asset management system (**AMS**): asset maintenance, risk management, contingency planning and financial planning. In total, the auditor made 15 recommendations to address issues across the Shire's AMS, which must be rectified by the Shire to meet the effectiveness criteria in the ERA's *Audit and Review Guidelines, Water Licences*.

Following the 2014 Review, the ERA gave the Shire until April 2016 to rectify the issues, and postponed its decision on the next Review period until the first post-review implementation plan (**PRIP**) update was received from the Shire, scheduled for May 2016. The ERA received the PRIP update on 22 June 2016.

Asset management deficiencies in the 2014 Review

The key deficiencies identified in the 2014 Review can be summarised as follows:

- The physical condition of the assets had not been assessed or recorded.
- The risk management plan needed to be updated and expanded to cover the recycled water scheme.
- The asset operations and maintenance policies and procedures had not been reviewed since 2009.
- The Shire did not have contingency plans for its sewerage and recycled water schemes.
- Financial and capital expenditure plans needed to be reviewed and updated to improve clarity and currency.

Post-Review Implementation Plan – Update

The updated PRIP provided to the ERA states that the Shire has addressed five recommendations and started to address nine of the fifteen recommendations in the 2014 Review.



Notice

One recommendation, regarding contingency planning, has not been addressed and has been outstanding since the 2008 Review.

It is a concern that the Shire has still not implemented a contingency plan for its sewerage and recycled water schemes. Contingency plans address serious emergencies such as bush fires, wastewater treatment plant malfunction and sewerage pond overflow; and provide plans for action if a hazard materialises. While the Shire has indicated that it has a risk management plan, the ERA has no evidence that the Shire has the contingencies in place to address higher order risks. It is a baseline requirement that an effective AMS includes a contingency plan that, at a minimum, addresses the higher order risks in the risk management plan and that procedures exist to regularly maintain and test the contingency plan.

Since the 2014 Review, there have been changes in the Shire's key management team. In addition, the position of Environmental Health Officer, which normally has responsibility for overseeing the sewerage and recycled water schemes, has been vacant. The ERA considers that these organisational changes have been a contributing factor to the Shire's lack of progress in addressing the recommendations in the PRIP and that they have also adversely affected the Shire's ongoing capacity to manage the sewerage and recycled water assets effectively.

The ERA has considered whether the current circumstances are serious enough to merit conducting an inspection of the Shire's AMS, under sections 40 and 41 of the *Water Services Act 2012*. Noting that there is no evidence that the sewerage and recycled water schemes are underperforming, and that most of the incomplete asset management deficiencies are documentation issues, the ERA has instead decided to bring forward the next Review to late 2016. Bringing the Review forward will provide the Shire with sufficient time to rectify the outstanding asset management deficiencies and provide the ERA with an independent assessment of the Shire's AMS.

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