



Our ref: CEOW702/10

Enquiries: Naomi Arrowsmith, 9841 0126

Mr Lyndon Rowe
Chairman
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

Attention: Dr Ursula Kretzer

Dear Mr Rowe

Inquiry into Water Resource Management and Planning Charges

Please find attached the Department of Water's (Department) submission to the Economic Regulation Authority (ERA) on the second draft report for the above inquiry.

Also attached is a response to the Effectiveness and Efficiency Review undertaken for the ERA by Pricewaterhouse Coopers. The Department welcomes this review, and is using key findings to inform the review of our strategic direction.

While I understand that the latter review is final, I believe it is important to clarify issues that are not correct or not supported by evidence.

I have welcomed the positive interaction between your staff and officers of the Department throughout the inquiry. If you have any queries about the submission please do not hesitate to contact me on (08) 6364 6804 or the Department's project officer Naomi Arrowsmith on (08) 9841 6804.

Yours sincerely

Maree De Lacey
DIRECTOR GENERAL

20 December 2010

Att

Response to the ERA's Effectiveness and Efficiency Review of the DoW

The Department of Water (DoW) welcomes the analysis of its effectiveness and efficiency, provided by Pricewaterhouse Coopers (PwC). The findings of the review provide important information to assist the DoW to refine and improve its processes.

The DoW has commenced a review of its strategic direction and planning frameworks, and the terms of reference for these reviews include consideration of the PwC findings.

The DoW accepts much of the commentary in the body of the report. It provides a thorough analysis of the department's performance, and identifies areas for improvement that will be pursued by the DoW.

However, the DoW believe that the Executive Summary of the report does not properly reflect the findings of the report as a whole, and presents a negatively biased summary of the findings.

The following comments are provided on the executive summary and the body of the report. While it is understood that the report is final, the DoW believes it is important to clarify issues which are not correct.

Executive Summary

Becoming more strategic

This section cites a number of concerns about the DoW's strategic and business planning processes.

External funding driving priorities

As noted in the PwC report, the DoW has received significant external funds, most recently in the areas of groundwater investigation and assessment, water information, and water planning.

Most of this funding has been received under the auspices of the National Water Initiative (NWI), including from the Bureau of Meteorology (BoM) associated with its new responsibilities under the Commonwealth Water Act. This funding has been considered by the Commonwealth to be catalytic for reform to processes, consistent with the direction of the NWI. While it could be argued that this is driving our strategic direction, it is the direction that is required under NWI and consistent with the DoW's refocussing of its priorities. The DoW rejects the suggestion that external funding is driving activities to areas that are not priorities.

It should be noted that the DoW does have a clear decision-making process on acceptance of external funds, which considers the extent to which the funds are to be used for delivery of core business priorities.

Inadequate business planning and decision-making processes

For our annual cycle of business planning, the department uses a strategic and risk-based decision making tools to determine priorities and make resource allocations.

The review makes reference in many places to a lack of cost-benefit analysis to assist decision making about prioritisation or choice of activity options. The DoW does not believe that rigorous benefit cost analysis is necessarily required for its routine operational decision making.

However, the DoW accepts that there may be ordinary business decisions which warrant cost benefit analysis because of the level of expenditure or risk. We do currently undertake rigorous benefit cost analysis for major investment proposals. A well documented example is the business case for development of the information systems (enterprise architecture) necessary to support implementation of potential new water resources legislation.

The DoW has a comprehensive business planning framework and this has served the DoW well in the past for decision making on resource allocations. However, it is recognised that the DoW is entering a new phase with growing complexity in water management and scarcity of water supplies through dry seasons. This necessitates a review of our approach to business planning processes to ensure they readily facilitate prioritisation of work and resources. The recommendation by PwC for stress testing of business planning decisions is accepted.

Poor preparation for potential new legislation

Government is considering the need to develop new water resources legislation. Work undertaken by the DoW on potential new legislation has been underpinned by substantial community consultation, policy development, and development of supporting systems and processes. A broad policy suite is being finalised for consideration by government, and a comprehensive enterprise architecture business case has been prepared to develop the necessary systems and processes to implement potential legislation.

The DoW is preparing for potential implementation of new water resources legislation at a pace that is commensurate with progress in developing that legislation. There is a risk that legislation will be further delayed and legislative directions amended. Therefore the DoW is being prudent in its investment in training, processes and systems development, and other preparatory work.

Performance indicators

The DoW agrees that there needs to be an improvement to its performance indicators, particularly in the context of implementing cost recovery. The DoW's current indicators are focussed on government's Outcome Based Management (OBM) framework, which requires agencies to develop indicators based around unit cost.

The DoW make specific comments on the performance indicators recommended by PwC further below in this submission.

Effectiveness Review

This section cites three examples to illustrate areas where the DoW may be applying greater levels of effort than needed for effective outcomes. A detailed response for each activity area investigated by PwC is given under Section 5, below.

However, the DoW are concerned that the examples cited in the executive summary of the report are based on flawed logic or misunderstanding and do not stand up to scrutiny. Specifically:

- For licences likely to be rejected, assignment as high risk ensures that there is thorough analysis and documentation of the decision. This ensures less effort is required to defend appeals through the Statutory Appeals Tribunal, and is considered a far more efficient approach.
- For public drinking water source protection planning, the notion that a cost benefit analysis should be undertaken on the efficient level of planning is rejected. Moving away from land use control through planning, to reliance on water treatment is contrary to statutory requirements and the Australian Drinking Water Guidelines which recommends a multiple barrier approach to protecting drinking water from catchment to tap.

A recent assessment by the Legislative Council Standing Committee on Public Administration Report 11, September 2010, on recreation in public drinking water source areas, supported the use of planning to protect public water supplies. In its submission to the inquiry, the Water Corporation indicated that hundreds of millions of dollars in drinking water treatment infrastructure, energy requirements and ongoing treatment costs are avoided through appropriate source protection planning that aims to prevent contamination of drinking water sources.

- The primary purpose of the State Groundwater Investigation Program (SGIP) is to improve the knowledge and understanding of groundwater resources that will contribute to effective and sustainable water resource management. This includes the construction and installation of new monitoring bores resulting in a more comprehensive

groundwater monitoring network to improve knowledge of changes in groundwater levels and quality in the long term.

The DoW carefully plans its investigation activities to focus on those areas where there is insufficient knowledge about aquifer properties to underpin modelling. Each of these activities is highly complementary. The quality of groundwater assessment can only be improved through improved input of aquifer characteristics and responses, gained through drilling and monitoring. The investment in groundwater investigations is returning significant value to the state by way of additional water for use, and clear examples of this are cited in the body of the report.

Efficiency review

This section cites concerns about the efficiency of a number of activity areas.

Operating efficiency - Licensing costs

The DoW costs are higher than those for the NSW Office of Water (NOW) and the DoW accepts that there is room for further efficiency improvements. However it should be recognised that there are a number of features which distinguish the level of effort involved in licensing between WA and NSW. These are further discussed under Section 5.

Operating efficiency - Allocation planning

The DoW was formed, in part, to increase focus on the water use component of our business. This has resulted in a significant focus on water allocation planning processes and outputs. Since the release of the State Water Plan, they have published 12 new allocation plans, and a further three will be published in the near future.

The State Water Plan was released in 2007 and since this time, there has been significant changes in priorities as a result of increased demand and reductions in availability associated with reduced rainfall. The DoW continuously reviews the status of water resources, and reprioritises planning activities as appropriate.

The body of the report also recognises that WA's allocation planning costs are comparable with NOW. The DoW therefore reject the suggestion that this activity area is not efficient.

Efficiency assessment of capital programs

The DoW consider the capital investment programs in each of the areas cited by PwC were prudent, and were delivered appropriately given constraints which prevailed at the time.

The following comments are made in relation to Table 4 and the following text on page 9:

- The cost overruns and delays in the SGIP are not considered to be a result of project management deficiencies. The drilling in question occurred at a time of peak demand for drilling in WA, associated with the resources boom. Costs of drilling increased by 25% between 2006 and 2008 for the North Gngara investigation, far more than could have been predicted through project planning. Availability of rigs was limited, resulting in delays.
- For the DoW's capital works associated with information collection, the asset replacement value of the state monitoring network is estimated to be in excess of \$148 million. The annual capital expenditure to maintain this network through replacement or repair of obsolete or damaged monitoring assets, is fully warranted. Much of the network was put in place 20 – 30 years ago.

The replacement and repair program is not fully funded, therefore expenditure investments are carefully targeted under the governance of the Measurement and Monitoring Steering Committee, based on annual surface water asset plans. An example of where this process has guided strategic shifts in capital investment relates to the decision to implement telemetry across the network to improve efficiency in data collection. A sizeable increase in investment for telemetry was included in the 2010/11 surface water asset plan.

Recommended efficient level of expenditure

This section recommends reductions in the level of costs which should be passed on to users because PwC is not confident that the DoW cost base is efficient and effective.

The DoW acknowledges that there are many opportunities for it to increase the efficiency of its services, and that the department is not fully efficient for the purpose of establishing a regulatory cost base. However, the department has a number of concerns at the reductions proposed in the report.

The reductions appear to be arbitrary and without any specific rationale for the levels chosen. For operating expenditure, an across the board reduction of 20% is proposed, even though the costs of some activities benchmarked favourably with NOW, and evidence of efficiency improvements was found in a number of areas.

The proposed reduction to operating expenditure does not take account of the growing demand for water, reduced water availability, and the increasing complexity of water management, all of which are resulting in increased effort and costs for the DoW.

For on-costs, the DoW's expenditure was found to be acceptable, and yet a reduction of 5% is proposed. This does not take account of likely increased costs for many of the departments overheads such as vehicles, IT, accommodation, utility costs, etc. The DoW is already absorbing these increasing costs through efficiency improvements.

For capital costs, the recommendation for a reduction of 25% in the areas of the State Groundwater Investigation Program, and the State Monitoring Network Maintenance program is rejected. For both the State Groundwater Investigation program and State Monitoring Network asset program, the department believes that the capital investment has been prudent, delivered planned outputs at a competitive cost, and within budgets approved by government. The investments have and will continue to address the issues raised within the Auditor General's two reports on the DoW (2003 and 2009).

Section 3 - Accounting methods

The DoW welcomes the comments in this section. Our submission was compiled in a short space of time, and was the first such submission to support the setting of fees and charges. The DoW will be refining its approach for future reviews, and will be developing its costing systems so that it can provide more robust cost information in the future.

Section 4 - The Department of Water's submission

This section gives an alternate presentation of the DoW's costs, taking into account issues identified in section 3. The DoW accepts this alternative analysis of its costs.

Section 5 - Detailed assessment of activities

5.2 Water licensing and compliance

Effectiveness

The DoW accepts that there could be further refinement of the risk assessment matrix, and will be undertaking this review as part of its preparation for cost recovery. In particular, we will be considering triggers which may reduce the risk associated with a licence. However, the DoW generally believes that the risk assignment matrix is reflective of the real risk, and that the greater numbers of high risk licences is reflective of the nature and location of the applications received.

Further, the departments costing submission demonstrated that the costs of processing medium and high risk licences are similar (medium risk licences are on average, slightly more costly to process). Therefore, processing higher numbers of high risk licences does not incur additional costs to the DoW.

With regard to appeals, assignment as high risk ensures that there is thorough analysis and documentation of the decision. This ensures less effort is required to defend appeals through the Statutory Appeals Tribunal, and is considered a far more effective approach and use of resources.

With respect to the balance between licensing and planning, the DoW accepts the comments made in the effectiveness conclusion. Progressively, the DoW is undertaking resource assessment and allocation planning consistent with that envisaged by the NWI. However, current legislative powers do not facilitate statutory water planning that would enable rules associated with use to be established through the planning process. Until the DoW is able to prepared statutory plans, thorough case by case assessment of licence applications will be necessary to manage the impacts of water use in line with allocations identified in the planning process.

Efficiency

The DoW's unit costs for licence transactions are generally higher than the NOW. However, the costs are not directly comparable between NOW and DoW because:

- A large proportion of the users in NSW are on regulated rivers, licences for which are simpler to assess and manage than the complex groundwater systems and unregulated rivers which prevail in WA.
- NOW licences all stock and domestic users, which results in a lower average licensing cost. Over 50% of its users are small scale users who attract the minimum fees. In WA, most stock and domestic users are exempt from licensing.
- The DoW has a significantly high proportion of groundwater applications which are more complex to assess.
- NOW process a far greater number of water trades than the DoW. This is a relatively new transaction in WA, and we do not have the same efficiencies of scale or level of experience. It is expected our costs will reduce over time as trades increase in number.

The DoW believe the difference in trends shown in budget papers compared to the department's costing submission is due to the different scope of the two measures.

The costing submission covered all water instruments issued (licences and permits) for both groundwater and surface water, as well as all on-costs. The budget papers only include costs for groundwater licences (excluded surface water, 26D licences and permits), and did not include on-costs. This indicates that there has been an overall small decrease in the average cost for all instruments, but an increasing trend in costs for groundwater licences

as assessment becomes more complex, commensurate with increasing levels of resource allocation.

5.6 Water source protection planning

Description

The DoW's current investment in planning is based on more than a "concept". It is a well accepted and proven basis for best practice drinking water protection frameworks in Australia and overseas. Source protection plans are nationally and internationally recognised as the most sound approach (Australian Drinking Water Guidelines (ADWG) 2004, World Health Organisation, and the Bon Charter for safe drinking water):

The level of planning for each source protection plan is not set out in the ADWG, but is determined by the DoW on a case by case basis. While DoW uses a standard publication template to ensure consistency and effective communication, a risk assessment is performed before plans are commenced to determine complexity, level of resourcing, data requirements, and timelines. As an example, the different levels of planning that occur under the current process can be seen by comparing the Jurien and Nilgen public drinking water source area plans (available on the DoW website).

Effectiveness

The concern that service providers may have an incentive or commercial interest to restrict catchment activities to improve water quality and reduce treatment costs is possible. However, is it Government that restricts catchment activities to maximise water quality protection, ensure public health, and minimise the risk of high financial and human costs associated with poor water source protection (which would be borne by Government, not the WSP). An example is the situation in 1998 when a water contamination event cost hundreds of millions of dollars to address, and required a "boil water" alert in Sydney just prior to the Olympic Games.

In relation to the advice that "there is no evidence of a systematic framework being employed in advance to determine how much effort should be expended on each plan", the DoW does evaluate the setting for each plan in advance for that purpose. As mentioned above, we undertaken a systematic assessment to determine the complexity of issues, resourcing and data requirements, and timelines.

In relation to the comment that "the level of effort invested in the plans is also largely a result of external factors" and "requirement that DoW must follow", the DoW disagrees as the driver is our legislation (Country Areas Water Supply Act, and Metropolitan Water Supply, Sewerage and Drainage Act), and draws from 1994, 2000, and 2010 Legislative Council Committee reports

in the protection of drinking water sources in WA, which all support our approach.

Efficiency

The DoW does not accept the analysis regarding the efficient level of planning, and the notion that the department may be over servicing this activity. The DoW believes that the development of drinking water source protection plans is the most efficient and effective measure to protect drinking water quality.

Protecting the health of drinking water consumers is a priority - the alternative to planning is very high cost treatment and potentially catastrophic consequences for Government and the community, particularly in sole supply catchments where no other safe water supply is available.

Moving away from land use control through planning, to reliance on water treatment is contrary to statutory requirements and the ADWG which recommends a multiple barrier approach to protection drinking water from catchment to tap.

The concern that existing best practice, preventive risk-based approaches (leading to protection plans) have not factored in the options of addressing water quality problems as they emerge, is not supported:

- There is evidence that water planning/protection in the catchment is much less costly than relying on treatment of contaminated water;
- There is a public health benefit from preventive risk based planning. This was most recently accepted in the Legislative Council Standing Committee on Public Administration Report 11, September 2010 on recreation in public drinking water source areas; and
- The ADWG also advocate that a combination of source protection planning and treatment provides an optimum safeguard for community health.

5.7 Groundwater assessment, investigation and review

Efficiency

The DoW acknowledges that the SGIP faced major challenges which resulted in a significant difference between planned and actual works. Challenges included:

- Delays in tendering process which was made more complex;
- Lack of availability of drilling rigs due to the resource boom;
- Significant increases in the costs of groundwater drilling;
- Fall of the Australian dollar against the US dollar which impacted on the cost of imported bore casing;

- Lengthy and costly consultation for land clearance approvals (i.e. Native Heritage and Department of Environment);
- Technical problems associated with drilling. Many bores required costly surface casing installation prior to drilling the pilot holes, which was not anticipated (i.e. North Gnangara);
- Additional stratigraphic bores required in strategic locations (i.e. North Gnangara); and
- Loss of key technical staff from the DoW.

Project planning needed to be flexible to adapt to changing circumstances, and DoW believes the changes to planned outputs was appropriate given the circumstances. Many of these factors were externally driven and beyond the control of the DoW. The DoW do not believe that cost overruns were an indicator of operating inefficiencies or an inability to plan and estimate cost accurately.

5.9 Water allocation planning

Effectiveness

As previously discussed, there have been significant changes in priorities for water allocation planning since the State Water Plan was published in 2007. The DoW continuously reviews the status of water resources, and reprioritises planning activities as a result of increased demand and reductions in availability associated with reduced rainfall.

In total, the DoW has finalised eight plans and has released a further four as drafts for public consultation. The department will be releasing a minimum of three further plans for public comment during 2011. We therefore consider we have more than met the target in the State Water Plan of 10 plans from 2007 – 2011. The body of the report fails to highlight other plans that have been prepared in place of those listed in the State Water Plan.

Specifically, the DoW has finalised four of the ten allocation plans identified in the State Water Plan (South West, Whicher, Collie, Gnangara), and another has been published for comment as a draft (Canning). In the period since the State Water Plan was released, we have also completed a further four plans (La Grange, Arrowsmith, Jurien, Rockingham) and a further three are have been released as drafts for public consultation (Gingin SW, Warren/Donnelly, Murray).

Section 6 - Benchmarking

The DoW notes the comments in the report acknowledging the difficulty in benchmarking activities between NOW and DoW, and that care needs to be taken in interpreting the benchmarking results.

The DoW believes that a significant cost driver for WA is the State's large dependence on groundwater. In particularly the cost of investigating

groundwater compared to surface water influences the overall costs of our resource investigation and environmental water planning activity areas.

The DoW is pleased that its costs compare favourably to those of NOW for a number of activities.

Our costs were significantly higher than NOW particularly for water licensing. Possible reasons for our high costs include:

- Unlike NOW, we do not licence stock and domestic users (except in Albany and Exmouth groundwater areas). These are generally low risk licences which are quick to process. Our average costs would be significantly lower if we were to licence all users.
- Assessing groundwater licences is inherently more complex than surface water licences.
- Processing trades is a relatively new activity in WA but well established in NSW. We expect our costs to fall as we process more trades, through efficiency of scale and increased experience of our staff.

Section 7 - Performance indicators

The DoW welcomes the analysis of its performance indicators. We acknowledge that our current external indicators, reported through the annual report and the budget papers, have limited internal use. However, the nature of the Outcome Based Management Framework (OBM) requires agencies to develop indicators based around unit cost.

The DoW accepts there is a need to review our external indicators and augment them with some new measures to be utilised by the organisation for tracking performance.

With regards to the performance indicators recommended in the review, while there are some useful measures, we would need to ensure that information required can be readily collected and the cost of collection doesn't outweigh the value.

Although the review identifies a lack of outcome based KPIs, and specifically mentions water source protection as an example, we note that the KPI's recommended by PwC also do not meet this need. This points to the difficulty in identifying suitable indicators to measure the adequacy of intended outcomes.

The DoW also note that for some of the KPIs recommended, targets cannot be set, such as "number of licences in force" which is dependent on external demand and not within the control of the DoW.

In summary it is agreed that the DoW needs some clear performance metrics, but careful consideration is required so that we are clear how the information is going to be used, who is using it and making sure it links back into resource allocation decisions.

Department of Water Submission

Economic Regulation Authority Inquiry into Water Resource Management and Planning Charges, Second Draft Report

The Department of Water (DoW) welcomes the release of the Economic Regulation Authority's second draft report of its Inquiry into Water Resource Management and Planning Charges.

The DoW acknowledges the requirement to recover the costs for water management, as part of Western Australia's commitments under the National Water Initiative. The Authority's draft report provides the DoW with guidance on the scope and implementation of water planning and management charges.

The purpose of this submission from the DoW is to outline a number of impediments and issues associated with the ERA draft recommendations and fees, not to outline Government's response to the proposals. Government will determine its position on water management and planning charges, after the ERA's final report is released in February 2010.

Recommendations

Recommendation 1: Agree

Recommendation 2: Agree

Recommendation 3: Agree

Recommendation 4:

The DoW notes this recommendation. The DoW acknowledges that its costing system was not designed to collect and report cost data at an activity level, and was therefore not able to provide all relevant costings for the purpose of the ERA Inquiry.

The DoW understands that the conservative approach adopted by the ERA to establishing the regulatory cost base may provide assurance to customers that inefficient costs are not being passed on. However, the corollary is that the DoW may receive less revenue than the efficient cost of its services, and it also does not take into account any growth in demand for the department's services.

The DoW has a number of concerns about the approach used by Pricewaterhouse Coopers (PwC) to identify the efficient costs, and submit that some aspects of the regulatory cost based be amended, as further discussed under section 3 below.

Recommendation 5:

Agree, although the DoW will be refining the risk matrix associated with any introduction of cost recovery, as further discussed in section 4 below.

Recommendation 6: Agree

Recommendation 7:

Although the DoW could not collect adequate data to measure the costs of different instruments, the DoW consider that an average cost should not be applied to amendments that are initiated by an application for additional water. This is further discussed under section 4 below.

Recommendation 8: Agree

Recommendation 9:

Agreed. As for recommendation 5, the DoW will refine the risk matrix, associated with any introduction of cost recovery.

Recommendation 10: Agree

Recommendation 11:

The DoW suggests that this recommendation should not mention specific areas (Carnarvon and Gngara Mound), as metering may be extended to other areas in the future. This recommendation should also be amended to remove reference to up-front charges for existing customers when meters are replaced, as the DoW consider the annual charges should include costs to maintain, upgrade and replace meters as required. The DoW believes there should be only one up front meter charge per customer. This issue is further discussed under section 5 below.

Recommendation 12:

The DoW requests that the words "at the end of the financial year" be removed from this recommendation. While the intent is to recover the true costs, the DoW would prefer to levy an agreed charge at the commencement of each financial year, and for there to be an adjustment at the end of the year to reflect actual expenditure. This would ensure cash flow for the DoW is maintained, but would also ensure that there is no perception of undue influence by water service providers in the services delivered by the DoW during the year.

Recommendation 13:

The DoW suggests that local planning proposals should not be included in the scope of cost recovery, and should be removed from this recommendation. The rationale is provided in the discussion under section 7.

Recommendation 14: Agree

Recommendation 15: Agree

Recommendation 16:

The DoW does not support recovery of costs for urban drainage and management, because the work is strategic in nature, impactors cannot be identified, and/or it is dealing with legacy issues from Perth's drainage system. The DoW therefore believes there is little benefit in undertaking further costing work in this area. We suggest the recommendation be changed accordingly.

Recommendation 17:

Agree, further information is provided below under section 7.

Recommendation 18:

Agree, further information is provided below under section 7.

Recommendation 19: Agree

Recommendation 20:

The DoW supports a phased-in approach to cost recovery, but recommends a different approach to the phasing of charges, given the constraints of current legislation. This is further discussed under section 8 below.

Section 2 - Review of Draft Recommendations in the First Draft Report

The DoW strongly supports all three amendments to the ERA draft recommendations.

Section 3 - Accountability, Effectiveness and Efficiency

The DoW welcomes the review of its accountability, effectiveness and efficiency, undertaken by the ERA. The DoW accepts that there are opportunities to improve its effectiveness and efficiency, and consideration of the ERA findings has been included in the terms of reference for the review of the DoW's strategic direction.

The DoW notes the ERA's recommended reductions to the recoverable costs base, including the removal of external funds, the increase in the public good component for some activities, and the overall reductions to operating and capital costs.

The DoW agrees with the recommended increase of the public good component for some of its activities, discussed on page 39 of the report.

While DoW understands the proposed reductions to the recoverable cost base for operating funds and on-costs, we make the following comments:

- The PwC findings were based on unit costs for a range of specific outputs (number of licences, number of plans etc). This has not taken account of the significantly more complex and broader water management role undertaken by the DoW in each of the service areas.

The DoW was formed, in part, to have a greater focus on water reform implementation associated with WA's participation in the National Water Initiative, and to increase the focus on the water use part of its business. Associated with these directions, the DoW has been progressively reforming its approach to its services. This has involved significant interaction with, for example, the Commonwealth Government and major development proponents in WA. These have resulted in immeasurable strategic outcomes for WA that are not necessarily reflected in the number of outputs.

- While the rationale for ERA's approach is to protect customers from paying potentially inefficient fees and charges, the corollary is that it may result in reduced revenue to the DoW for service provision that may already be efficient.
- This would be inconsistent with the findings of two reports by the Office of the Auditor General (2003, 2009). The 2003 report identified significant concerns around resourcing for water licensing, water measurement and water allocation planning. The 2009 found marked improvement in these services as a result of the increased effort and improved efficiency.
- PwC found that the costs for some of DoW's services benchmarked favourably with the NSW Office of Water (NOW). The recommended 20% reduction to operating costs is not strategically applied, and does not differentiate between those activities for which DoW compared favourably, and those which did not.

The DoW does not accept the proposed reductions to the two capital components (State Groundwater Investigation program, and the water information capital maintenance program), and ask that these reductions be reconsidered:

- The State Groundwater Water Investigation program is of fundamental importance to understanding groundwater systems with the aim of refining water allocations and making more water available. The DoW rejects the comments in the PwC Effectiveness and Efficiency Review that this investment has not been prudent, properly planned, and delivered at least cost.

The cost overruns and delays in the program are not considered to be a result of project management deficiencies. The drilling in question occurred at a time of peak demand in WA, associated with the resources boom. The costs of drilling increased by 25% between 2006 and 2008 for the North Gnangara investigation, far more than could have been predicted through project planning. Availability of rigs was limited, resulting in delays.

- The state groundwater and surface water monitoring network has an asset replacement value of over \$148 million. The annual capital expenditure to maintain this network through replacement or repair of obsolete or damaged monitoring assets, is fully warranted. Much of the network was put in place 20 – 30 years ago. The DoW rejects the comments by PwC that this investment is not properly planned nor prudent.

The replacement and repair program is not fully funded, therefore expenditure investments are carefully targeted under the governance of the Measurement and Monitoring Steering Committee, based on annual surface water asset plans. An example of where this process has guided strategic shifts in capital investment relates to the decision to implement telemetry across the network to improve efficiency in data collection.

There are a number of other issues regarding the discussion in this section which the DoW highlight:

- **Section 3.4.1 (page 25)** – The DoW does have a clear process for allocating overheads to its activities. However, the DoW had not calculated the costs at activity levels for the purpose of the Quantum review.
- **Section 3.4.2 (Page 27)** – The DoW has provided a separate, comprehensive response to the Effectiveness and Efficiency review undertaken by PwC.

A key issue for the DoW is the PwC critique of its strategic planning approach. The DoW believes that the standards which PwC has applied to judge the adequacy of its strategic planning approach, should essentially be applied to significant and major projects, and the DoW does not believe that these standards are necessarily appropriate for the operational work undertaken by the DoW. For example, we do not believe it is appropriate to routinely apply cost-benefit analysis across our full annual business planning cycle for ordinary business decisions. However, the DoW do agree that there may be ordinary business decisions which warrant cost benefit analysis because of the level of expenditure or risk, and for major new businesses investment cases.

While DoW does not disagree with the overall findings and opportunities for improvement, we do disagree with some of the examples and rationale provided by PwC. These areas have been fully addressed in our separate response to the Review.

The DoW will be considering the feedback from PwC in the implementation of the strategic direction, including consideration of improvements to its business planning processes.

- **Section 3.4.2 and Section 3.4.3 (Pages 32-34)** – The DoW notes the conservative approach taken to cost recovery, including the proposed reductions in the recoverable cost base. As discussed above, the DoW does not believe that the reductions recommended by PwC were strategically applied. For its operating costs, a 20% reduction was recommended across all activities, even though its costs for some activities were found to benchmark favourably with NOW. It is disappointing that PwC did not make more targeted recommendations to differentiate between those activities for which the DoW benchmarked well, and those that it did not.

The DoW will continue to collect costing data so that full information is available for future fee reviews, which should provide sufficient confidence to remove this anomaly.

Section 4 - Water Licensing

Processing and assessment of applications for water licences and permits

The DoW generally supports the approach taken to the structure of charges, as we believe that the risk assessment approach is generally reflective of effort applied. However, we make the following suggested amendments and comments.

Risk assessment matrix

The risk assessment matrix used by the DoW in its licence assessment process was designed to provide guidance to licensing officers on the level of scrutiny which should be applied to each application. The risk of each licence is determined at the beginning of the assessment stage, after the licence has been accepted and administrative activities have been completed.

It should be appreciated that the risk assessment is not a 'box tick' exercise. The level of effort may continue to vary through the assessment process, as, for example, potential concerns are investigated and found not to be issues, or as new issues are identified.

The risk assessment matrix is the most cost reflective tool the DoW currently has, but considers it could be refined so that it more closely reflects the effort we undertake for cost recovery purposes. A review of the matrix will also address concerns expressed by PwC that the nature of the matrix may result in a greater number of high risk assessments than necessary.

In reviewing the matrix, the DoW will include consideration of:

- The number of volumetric bands in the matrix;
- The number of risk categories in the matrix; and
- Identifying triggers to lower the risk (current triggers only raise the risk).

The DoW will then collect data against the revised risk assessment matrix to enable recommended charges to be reviewed in the future.

Amendments

The use of the risk assessment approach to differentiate charges should also be applied to licensee initiated amendments for an increase in water allocation, rather than using the average cost.

Most amendment applications are for an increase in licence allocation, and the DoW deals with these in the same way that it assesses a new licence application. While DoW could not collect adequate data to determine the charges, as the number of amendments during the time keeping period was low, the DoW believe that it would be appropriate to use the same charges that apply to new licence applications because the processes used and effort applied is generally the same. The Quantum report clearly demonstrates that the same process is used.

In designing the detail of the approach, the DoW will also need to ensure only minimum charges are applied when the amendment is for a name change, or where the DoW initiates the amendment through a recoup of water, for example.

Cost of renewals

The DoW accepts the comments around the cost of licence renewals. The ERA decision to incorporate some of the licence renewal costs into the annual charges for water allocations and managing use, is consistent with the general direction of water reform. The intent is to move toward issuing perpetual licences (renewals not required) supported by statutory water management plans. It is also consistent with the likely greater emphasis on compliance, the costs for which would be recovered through the annual fee.

Costs compared to NOW

There are a number of factors which contribute to the higher costs of licensing in WA compared to NSW:

- A large proportion of the users in NSW are on regulated rivers, licences for which are simpler to assess and manage than the complex groundwater systems and unregulated rivers which prevail in WA.
- All stock and domestic users in NSW are licensed. The average licensing cost is significantly reduced because of the large number of these users - over half the licensees in NSW pay the minimum licence cost (\$60). In contrast, stock and domestic users in WA are exempt from licensing (except in Albany and Exmouth) and therefore our average costs are higher.
- The DoW has a significantly high proportion of groundwater applications which are more complex to assess.

Providing water allocations and managing the ongoing use of water

The DoW generally supports the approach and recommendations for this service area.

With regard to table 4.10 on page 57, it should be noted that the number of water use licences in each category are not direct figures, but were extrapolated from DoW's three month measurement period, and the breakdown for low, medium and high risk licences in C3/4 areas is also extrapolated from this data. Because DoW's risk assessment process has only been recently introduced, many existing licences have not had their risk assessed, because they have not yet been renewed.

On the impact that large users may have on the resource management category of a water resource, the DoW believes there are a number of areas where large volume use by a single user has resulted in a resource being categorised as C3, rather than C1 or C2 (eg Albany Groundwater Area).

However, the DoW believes that a review of the risk assessment matrix, as proposed, would assist to address this by having greater granularity of risk assessment. The likely outcome would be that very large licences would be assessed as having a very high risk in C3 areas, and pay significant fees accordingly.

An alternate approach might be to levy a surcharge on a single high volume user, which accounts for the different costs of managing a C2 versus C3 area.

Separate billing for large licence holders

The DoW supports the approach and recommendation in regard to charges to the Water Corporation for the IWSS.

Section 5 - Water Metering

The DoW generally supports the approach and recommendation for metering, but make the following comments:

- The DoW believes that the annual fee should cover meter reading, maintenance, and eventual replacement at the end of life of the meter. This would avoid the need for water users to pay a new meter fee more than once. The DoW's experience to date is that meter maintenance often results in the actual replacement of a meter, as this is often less expensive than repair. Incorporating eventual replacement costs in the meter reading and maintenance fee would therefore make good sense.
- However, the DoW measured its costs only a short time after meters were installed, and the maintenance costs were very low. DoW expect that maintenance costs will increase significantly through the life of the meters, but also expect our meter reading costs to decrease. While the net result may not vary from the proposed charges, DoW will measure our costs carefully to enable future review of fees.
- Currently, some customers are undertaking meter reading of government owned meters, as a condition of their licence. Where this is the case, the DoW would expect that they would pay a reduced annual meter reading and maintenance fee, to remove the effort involved for the DoW to read the meter. This will need to be taken into account in the detailed design of fees.

The DoW believes the recommendation should be amended to remove reference to up-front charges for existing customers when meters are replaced.

Depending on future funding, the DoW may be extending the metering program to other high priority areas beyond Carnarvon and the Gngara Mound. Therefore, the DoW also recommend that reference to specific areas be removed from the recommendation.

Section 6 - Water Source Protection

The DoW generally supports the approach proposed to cost recovery for this service area. However they are concerned about the conclusions drawn by the ERA and PwC that department may be over servicing water source protection, and that there may be other options that could achieve safe drinking water supplies at a lower cost.

The DoW believes that the development of drinking water source protection plans is the most efficient and effective measure to protect drinking water quality:

- Source protection plans are nationally and internationally recognised as the most sound approach (Australian Drinking Water Guidelines (ADWG) 2004, World Health Organisation, and the Bon Charter for safe drinking water);
- The level of planning for each source protection plan is not set out in the ADWG, but is determined by the DoW on a case by case basis.

While the DoW uses a standard publication template to ensure consistency and effective communication, a risk assessment is performed before plans are commenced to determine complexity, level of resourcing, data requirements, and timelines. As an example, the different levels of planning that occur under the current process can be seen by comparing the Jurien and Nilgen public drinking water source area plans (available on the DoW website);

- The driver of the DoW's activity is the legislation (Country Areas Water Supply Act, and Metropolitan Water Supply, Sewerage and Drainage Act), and draws from 1994, 2000, and 2010 Legislative Council Committee reports on the protection of drinking water sources in WA, which all support the DoW's approach.
- While the first line beneficiaries of the DoW's planning work are public water supply service providers and their customers, the source protection program also has a long term focus on protecting the integrity of water supply sources in perpetuity.

The concern that existing best practice, preventive risk-based approaches (leading to protection plans) have not factored in the options of addressing water quality problems as they emerge, is not supported:

- There is evidence that water planning/protection in the catchment is much less costly than relying on treatment of contaminated water;
- There is a public health benefit from preventive risk based planning. This was most recently accepted in the Legislative Council Standing Committee on Public Administration Report 11, September 2010 on recreation in public drinking water source areas.
- The ADWG also advocate that a combination of source protection planning and treatment provides an optimum safeguard for community health.

The concern that service providers may have an incentive or commercial interest to restrict catchment activities to improve water quality and reduce treatment costs is possible. However, it is Government that restricts catchment activities to maximise water quality protection, ensure public health, and minimise the risk of high financial and human costs associated with poor water source protection (which would be borne by government, not the WSP). An example is the situation in Sydney in 1998 when a water contamination event cost hundreds of millions of dollars to address, and required a "boil water" alert in Sydney just prior to the Olympic Games.

It should also be noted that the Water Corporation already has an influence on the DoW's water source protection priorities. The Water Corporation and the DoW meet frequently to discuss planning priorities, land purchase priorities, and other matters. The DoW welcomes ongoing input from the Water Corporation on these matters.

Section 7 - Other Services

Advice on statutory referrals

The DoW has further considered cost recovery across the various types of statutory referrals.

On recovery of costs for local scale statutory referrals from local governments, the DoW has met with the Department of Planning and WA Local Government Association to discuss the ERA recommendations, and we provide the following further advice:

- Local scale statutory referrals vary significantly in their scope. They can range from quite simple to very complex town planning scheme referrals. There can be single or multiple land owners involved, and there may be developer contribution schemes in place which would increase the complexity for local government in passing on the costs.
- The DoW is of the view that the public benefit component of these referrals can vary greatly: some scheme amendments are to permit certain proposed developments, and are wholly for private benefit, while some are local government initiated and have a significant public element aspect.
- Given the variety of these referrals, the DoW is concerned that applying our average costs for this service to all proponents may not be fair.

The DoW therefore proposes that cost recovery for local scale planning referrals be deferred until a future review of fees. This will enable the DoW to develop more robust costings which distinguish between different referrals, and allow the department to better differentiate the public and private benefit components of this work.

The DoW suggests that reference to local planning proposals be removed from Recommendation 13.

Urban water management

While it is correct that the DoW cannot determine the cost per unit output for these services at this stage, the DoW does not support cost recovery for this service because:

- For drainage and water management planning, it is strategic in nature and the impactors cannot be identified;
- For arterial drainage studies, the work is largely addressing legacy issues associated with Perth's drainage system, or it is strategic in nature for new urban areas.

The DoW believes that there is no benefit in costing this service because the costs should not be recovered. The DoW therefore suggest that Recommendation 16 be amended to say that the costs for urban drainage and management services not be recovered from users of these services.

Floodplain management advice

With regard to cost recovery for floodplain management advice, the DoW has now estimated the costs involved and cannot support our initial concern that costs may outweigh benefits.

However the DoW does not support introduction of cost recovery for floodplain management advice at this stage, and recommends that introduction of fees be deferred:

- Similar to local scale statutory planning referrals, the scale of issues varies significantly. The time taken for the DoW to prepare advice varies from an hour to several days, depending on the nature of the request.
- The public benefit component of the advice we provide varies significantly – from wholly private benefit for due diligence enquiries associated with land purchase, to wholly public benefit for flood level information associated with road construction.
- Given the varying scale and level of public benefit for this service, the DoW is concerned that applying the average cost would not be fair or appropriate.

Provision of water information

The DoW does not support cost recovery for this service because the department considers that the costs of administering the scheme are likely to outweigh the benefits, particularly in the future if the Bureau of Meteorology (BoM) introduces its free web based service. DoW will maintain a watching brief of BoM's service, and will review the position on cost recovery in the future, if necessary.

The DoW has explored cost recovery for this service in the past, including discussions with some of our large data customers (primarily consultants). DoW has concluded that the only way it would be efficient to recovery costs would be to charge substantial fees to a small subset of our customers (such as the top 20 users of our data), to cover all of our costs.

While some consulting companies have indicated they would be willing to pay these fees, and would pass the costs on to their customers, this approach is not consistent with the principles for cost recovery proposed by the ERA.

If DoW were to recover costs from all of our customers, our conclusion is that there is little benefit. Specifically:

- The ERA's proposed efficient cost for providing water information is \$233,272, or \$129 per information request.

- The DoW has estimated the costs to administer a scheme to invoice approximately 1800 customers each year, and to allow for bad and doubtful debts. The costs would be in the order of \$110,00 per annum, comprising staff time and 10% for bad and doubtful debt.
- This does not incorporate any costs to establish the system, either within the shared services platform, or operating independently of shared services.

For these reasons, and the proposed introduction of the BoM service, the DoW believe the possible marginal benefit that might be obtained does not justify the effort to establish a charging system.

Section 8 - Implementation of Fees and Charges

Impact of fees and charges

With regard to the discussion of local government planning fees, note that costs for clearing subdivision conditions are incurred for the WAPC, not local governments.

Implementation of fees and charges

The DoW's ability to recover the costs recommended by the ERA is significantly constrained by current legislation. The only powers to charge fees are contained within the *Rights in Water and Irrigation Act 1914 (RIWI Act)*. This Act provides head powers to charge fees for the issue of licences and permits under the Act, for metering activities, and for allocation planning done in accordance with the planning powers in the Act.

The DoW's current approval process for allocation planning does not meet one potential criterion for statutory allocation planning under the provisions of the *RIWI Act* (ie approval by a Water Resource Council). Preliminary legal advice is that the DoW cannot recover costs for this activity because of the inconsistencies.

The table below shows those fees and charges which, from preliminary legal advice, the DoW believes it has the power to levy, or for which the DoW believes alternate means could be used.

Recommended Fee	Powers available
Processing and assessment of applications for water licences and permits	Yes, head powers, Clause 27B, RIWI Act.
Licensing of the Water Corporation for the IWSS	Yes, head powers, Clause 27B, RIWI Act, or via a memorandum of understanding
Water licensing policy and enforcement	No powers available
Water allocation planning and management	No powers available, as the planning approval process does not meet all criteria required to

	become statutory plans under the provisions of RIWI Act.
Water metering	Yes, Clause 46, Schedule 1, RIWI Act
Protecting public drinking water sources - planning, implementation, P1 land purchase and management	No powers available, would need to be via a memorandum of understanding with water service providers.
Sub-division applications, and clearance of sub-divisions	No powers available, would need to be via agreement with WAPC, and it would need powers to pass on costs to applicants.
Development applications and local planning proposals	No powers available, would need to be via agreement with local governments; and local government would need powers to pass on costs to applicants.

Government is considering the development of new water resources management legislation. Any drafting instructions prepared will take into account areas for cost recovery recommended by the ERA. Any new legislation may provide a future mechanism to recover costs in other areas. Alternatively, currently legislation could be amended to introduce or extend powers for cost recovery.

Phased implementation

The ERA recommends a phased introduction of fees and charges over a three year period. Given the legislative constraints to implementing cost recovery, as discussed above, the DoW proposes an alternative approach to the introduction of cost recovery, as shown below. This is also subject to comments made on the approach to cost recovery for each service, as further discussed in this submission.

Phase 1: Could be progressed in the shorter term:

- Processing and assessment of applications for water licences and permits. Costs to be recovered either in full immediately, or phased in over two or three years
- Licensing of the Water Corporation for the IWSS.
- Protecting public drinking water sources from water service providers, subject to agreement.
- Water metering, subject to continuation of the metering program.

Phase 2: Could be progressed in the longer term:

- Annual fees for providing water allocations and managing the ongoing use of water, subject to additional powers
- Recovery of costs of sub-division applications and clearance of sub-divisions from WAPC, and for development proposals from local government, subject to additional powers or agreement.

- Fees to provide floodplain management advice, subject to additional powers.