

# **ENVIRONMENT, NATURAL RESOURCES AND REGIONAL DEVELOPMENT COMMITTEE**

## **Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils**

Melbourne — 12 September 2017

### Members

Mr Josh Bull — Chair

Mr Simon Ramsay — Deputy Chair

Ms Bronwyn Halfpenny

Mr Luke O'Sullivan

Mr Tim Richardson

Mr Richard Riordan

Mr Daniel Young

### Witness

Mr Tony Wright, chief executive officer, VicWater.

**The CHAIR** — Welcome to the Environment, Natural Resources and Regional Development Committee’s public hearing in relation to the inquiry into the sustainability and operational challenges of Victoria’s rural and regional councils. The committee is hearing evidence today in relation to the inquiry into the sustainability and operational challenges of Victoria’s rural and regional councils. The evidence is being recorded. All evidence taken today is protected by parliamentary privilege; therefore you are protected for what you say here today, but if you go outside and repeat the same things, those comments may not be protected by this privilege.

I would like to welcome Mr Tony Wright, the chief executive officer of VicWater. Today’s evidence is being recorded, and you will be provided with a proof version of the transcript within the next week. Transcripts will ultimately be made public and posted on the committee’s website. I now ask you to state your name and job title.

**Mr WRIGHT** — Tony Wright, chief executive officer of VicWater.

**The CHAIR** — Thank you very much, Mr Wright. I would now like to take the opportunity to invite you to make a brief opening statement of somewhere between 5 and 10 minutes. That will then be followed by questions from committee members.

**Mr WRIGHT** — Thank you. I would like to acknowledge the traditional owners of the land on which we are meeting today, the Wurundjeri people, and pay my respects to their elders past, present and emerging. We actually take that statement very seriously in the water industry because of the connection to water and land. We always make a point of making that comment.

Thanks for the opportunity to talk with you today, and also thank you for the opportunity to make a submission. You will note in our submission that we have not tried to address the breadth of terms in the terms of reference. What we have tried to do, I guess, is highlight the importance of our relationship with councils, particularly in the regional setting, and the partners with water corporations in providing services to communities. We have a number of boundaries that intersect, and the things that we do and the things that councils do have a direct impact on our communities in a whole range of ways. They impact the quality and cost of services. They also impact the opportunity for growth, the opportunity for creating a really strong value proposition in regional settings, and the opportunity for competitive advantage because water and wastewater infrastructure can provide for competitive advantage in particular communities.

In our submission we really wanted to talk about some of the benefits of economic regulation that the water corporations have experienced over a decade, but also note that in our experience economic regulation works best when priorities are pretty clear and standards are clear as well. So the argument really shifts away from what you should be doing as much as possible to how you should do the things that you are supposed to be doing most efficiently. Obviously there are a range of stakeholders involved with that.

I do want to acknowledge that the revenue and funding model for local government is far more complex than that which applies to water corporations, and I guess in that context councils have to balance a whole range of stakeholder priorities. We see that as a more difficult scenario than applies to water corporations. So I certainly want to acknowledge that.

I guess that one of the comments I would like to make, and I do not know if this will be helpful or not because it is sort of economics 101, but certainly in the water sector we see that economically efficient pricing occurs when the cost of drivers and revenues are largely matched. I could not help but be taken by the previous presenter while listening to some of the comments about the challenges they were facing. From our experience when there is a disconnect between the structure of your income and the structure of your costs it creates risk. The question is, how much is that risk? Where is the risk allocated, and who bears the burden of that risk? That might be something just to bear in mind as you ponder, I guess, the dichotomy of different forms of funding and different types of cost structures.

In terms of the three examples that we put up, and unsurprisingly they intersect the water corporations interests where we would see the benefits of clearer positions, I think, leading to better outcomes in terms

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of efficiency costs and outcomes for the community around buffer protection, planning scheme protections in catchments and on-site wastewater management, which we recognise as a potentially difficult issue in a lot of regional settings. That outlines our submission. I am happy to take questions and delve into those areas in more detail, if you like.

**The CHAIR** — Thank you very much, Mr Wright. As the committee chair I will ask the first question. I note in your submission that there is this interesting byplay where you talk about those core services that councils should provide, and then those services where they can go above and beyond to provide, I think you say, if I can quote you, ‘Suffice to say that all budgetary and funding pressures arise because there is a certain list of activities councils must do, an infinite list of activities that councils could do, and finite resources for both’. Can you indicate to the committee what are the benefits of economic regulation such as rate capping or the ESC?

**Mr WRIGHT** — Certainly; maybe put the rate capping to the side but talk about economic regulation as it is applied to water corporations. It works very effectively when you have clear positions on core services. So for water corporations the Australian Drinking Water Guidelines, the Safe Drinking Water Act, the requirements with the EPA are spelt out and embedded in the statement of obligations. The economic regulator has to pay due regard to the fact that they are mandated outcomes that water corporations need to deliver.

So the argument with the ESC — or the discussion process with the ESC, argument is not really the right word — is all about verifying what is the best way of doing that, what is efficient pricing and impacts of doing that, what are the customer outcomes in terms of services, and how can you best meet those obligations that are embedded. So it is very clear. The argument is not about so much if you should do it; the argument is about how you do it.

There has definitely been, in all of the processes we have with the ESC, I guess, outcomes put up which the community have been particularly keen on sometimes, or even other stakeholders, which have not been as clearly mandated under the statement of obligations, and then the discussion is about, ‘Okay, prove that this is actually wanted by customers, prove that this is actually needed, and also prove how you are going to deliver the outcomes, and is that the best of delivering outcomes’.

One of the really interesting things that came out early in the piece was this idea of funding innovation. Ron Ben-David has got a whole speech around this, and I think his position is quite clear, and I am sympathetic to the view. Water corporations in early water plans — we are talking about requiring additional funding for innovation. Innovation is about business improvement and performance improvement. The question around funding innovation is who should fund it and who should wear the risk of it, and who wears the benefit of it. If you think it through, customers should not wear the risk of innovation. Innovation should be risk contained, should be a process, and the outcomes then should be shared with the customer as you come through that process. So that is an example of a more discretionary sort of space.

**The CHAIR** — Given that answer, are there core services that you feel some rural councils are failing to provide?

**Mr WRIGHT** — I have not done any analysis in that space, and I could not really comment. I live in Ballarat and the services we get there —

**The CHAIR** — Pretty happy in Ballarat?

**Mr WRIGHT** — are pretty good. I used to work at Central Highlands Water, which intersected with Moorabool and Pyrenees, and you could certainly see the different resourcing available to different councils, but I have no particular evidence of any regional council that is failing to provide a service. But we have not done any analysis in that space either.

**Mr RAMSAY** — I just have a couple of quick questions, and they are in relation to some of the issues that I am familiar with with councils in relation to their potable water supply catchment areas and their

wastewater plans. I remember some small areas that wanted to be seweraged that could not be because of economics and some councils struggling to implement their domestic water plans.

**Mr WRIGHT** — Wastewater management plans, yes.

**Mr RAMSAY** — There seems to be a lack of planning expertise. So from your perspective I am wondering, given the lack of compliance or follow-through on those plans, do you think that councils need additional support from the government in relation to some of the planning issues around moving those plans forward? My understanding is that once you start developing plans that start to provide water sewerage to those vacant blocks, then you start getting some growth in those unpopulated areas. Then the economics come into play about who is prepared to pay for what on the installation. Do you have a view about what expertise councils might need in the future to help with the laying out of the plans?

**Mr WRIGHT** — We touched on domestic wastewater management plans in our submission, particularly in relation to development in catchments. I think it does highlight an issue of where funding was provided to develop plans, but there was little thought about the funding required to implement all recurrent funding to manage those plans.

We went through a process to revise the open drinking water catchment guidelines because they were a bit vague and they had a provision around density development that a lot of local councils were struggling with. There were a lot of VCAT cases from private applicants, councils and water corporations, and so we sought to clarify the requirements to get away from default density and development for growth and lend it to the massive wastewater management plans. That has certainly cleared up a lot of the VCAT hearings, but I am pretty sure that not too many councils have got a higher rate of density of development off the back of the implementation and proof of performance on domestic wastewater management plans.

So that is a long-winded answer, but basically I think it does raise the question of where you give one-off funding to do something like a domestic wastewater management plan, there are always expertise and resources required to implement afterwards. Water corporations went through this same experience back in the 1990s through amalgamations, when we were asked to spend significant capital putting in small-town sewerage schemes and improving the water supply to all communities with a population greater than 200 people. The cap ex was provided but the op ex impacts were not thought through. They are now fully considered as part of that ESC-type process.

**Mr RAMSAY** — Can I just refer back to flood mitigation. Do you see where there might be an opportunity to assist councils in their responsibilities in responding to flood mitigation and flood mitigation works? Do you have a view about helping councils deal with responsibilities in that area, given what we are hearing about that here?

**Mr WRIGHT** — I think for water corporations it is almost a case-by-case basis, depending on individual circumstances, and they have a good working relationship, generally speaking, with councils. They certainly would have access to some expertise, and I would encourage dialogue to occur at a local level in that space.

I am not an engineer, so it is difficult for me to provide engineering advice, but knowing how local government water corporations generally work together, I have no doubt they would be happy to provide advice in particular areas if they felt they needed some support.

**Mr RAMSAY** — My first year as a member of Parliament I actually helped with those areas flooded in the north-west, around Horsham and Kerang, and there was a lot of discussion around the fact that the councils were not able to put in the levee banks that they wanted to protect their towns. They were not able to get some of the creeks and waterways cleared out. They had raised for years and years that they were getting choked and bogged down with debris. It almost took a flood for anyone to actually start paying some serious attention to flood mitigation works. Councils were left with huge bills in the aftermath of the 2010–11 floods. Have we learned lessons from that time to this point where councils are getting direction and financial support to mitigate potential flood areas around their municipalities?

**Mr WRIGHT** — I cannot really comment on that because I am not involved in that area. I am not directly involved with it, so it is hard for me to pass comment about whether it has been adequately funded or not. I will say, though, that flooding has a significant impact on water assets, particularly treatment plants and particularly sewerage treatment plants, because they tend to be at the low spots and gravity feeds to them. I do know that response planning has been ramped up and local government and water corporations work closely in that space, but in terms of whether there has been adequate funding to address the identified risks, I could not comment on that.

**Ms HALFPENNY** — I am going to ask a similar line of questions. Just looking at the previous presenters, their submissions did not contain anything about flood mitigation or planning, which I find a bit of a worry. We also did the inquiry into the Fiskville tragedy, where again there was a lack of protection of water assets — creeks and whatever else. In some of those cases it seemed that it was not actually about the money; it was just about the lack of interest in even checking on some of these things. I think in terms of water catchments, there are a whole lot of different levels of government that all have a bit of a say here and there. Do you see a way where maybe one level of government should have more responsibility? Should it be the council that runs it if they get the proper resourcing? Where do you see this heading so that it is best managed?

**Mr WRIGHT** — I think we touch on it in our submission because we talk about having clear state standards and then allowing for a local response to those standards —

**Ms HALFPENNY** — But in some of these cases we are not following through, even if there was a requirement; it was about the action part rather than what was required.

**Mr WRIGHT** — I think anywhere where there are action plans in place, particularly from monopoly service providers, there should be transparency of reporting progress against those plans. So I think if you have a strong planning structure with quite specific objectives, and then you allow for local customised responses and then you have transparent reporting of progress, I always find that to be a very effective mechanism in making sure things happen.

If progress is not occurring, then there needs to be some clarification around why progress is not occurring and then obviously address those reasons. Sorry; that is quite a simple explanation.

**The CHAIR** — We will take a couple of minutes for a break.

**Hearing suspended.**

**The CHAIR** — The member for Thomastown had concluded, I understand, and I now pass to the member for Polwarth.

**Mr RIORDAN** — Thank you. On the challenges of Victoria's rural and regional councils, there is a lot of talk in Victoria at the moment about decentralising and trying to get some of this enormous growth in Melbourne to sort of move out. My experience is that water and sewerage provision equals growth and development — there are no two ways about it — even in country towns where those services are provided.

I have concerns about the linkages between the water authorities' operations, their objectives and their reason for being, and their connection with local councils. I have got many examples within my six shires at the moment where councils and communities are growing, so we are seeing growth of industrial areas, but without sewerage, without water. So the water authority is not taking the responsibility and the lead role in continuing to grow the necessary infrastructure, and instead we are seeing Toyota dealerships being built with water tanks and free acres reserved for their pump-out — you know, you-beaut sewerage systems. I wonder about the logic of that. What is the obligation of the water industry to be working hand in glove with local government to ensure that the pace of necessary infrastructure keeps up with the growth in our outer towns?

**Mr WRIGHT** — I think it is pretty clear-cut. Water corporations are supposed to be providing efficient services in accordance with the staged development plans of local government. Where those plans are staged and sequenced, then it really comes back to timing of investment, and particularly where that growth is within declared water districts. So if it is in a declared district and it is part of a staged infrastructure plan, then that would form the basis of a water corporation's submission to the economic regulator and they would provide efficient revenue to do that.

The only time there would be issues would be if there were changes in zoning, changes in sequencing of plans, and obviously that incurs out-of-sequence costs or timing costs. But even under that circumstance there is a provision with the ESC about how you recover those costs. So I think it is really about how good the planning is from water corporations and local government about where development should be occurring and where the zoning is being done. It is difficult without talking about specific circumstances.

**Mr RIORDAN** — Yes, but I mean clearly when areas and townships develop, they are only developing because the zoning allows them to.

**Mr WRIGHT** — Yes.

**Mr RIORDAN** — So what is the obligation for the water authorities to keep abreast of that and ensure that their infrastructure is keeping pace with that development?

**Mr WRIGHT** — What I have said is there is an obligation for them to service development that is in a staged and planned way, and they would review those plans and submit them for scrutiny every five years as part of the economic regulatory process and they would receive funding on the basis of those plans. The only time there would be an issue would be if the staging of development changed. We often see that occur in developing areas. There are arbitrage opportunities from rezoning land or changing the staging of development, and developers will see a market opportunity and go for that, and in that case if there are any significant additional costs, there are ways of recovering those costs. Those processes are well-defined.

In terms of providing services to unserved areas, it should be part of a planned approach. So if you have got areas where services are not being provided but it is part of an infrastructure plan from local government, then I would be having a chat with the water corporations about what are their plans and sequencing. It should be part of their submission to the ESC, and I would also encourage local government to look very carefully at those submissions that water corporations put to the economic regulator around that. They certainly should have consulted as a key stakeholder in developing those pricing submissions, of which the next round is due in September.

**Mr RIORDAN** — So where we have the growth of lifestyle communities — they are usually in sensitive areas, whether it is in forested areas or close to the coast — we have seen a significant investment growth in that by individuals, whether it is for bike riding or surfing or whatever their weekend hobby is. But certainly in my area once again we have some growth in that. Are these communities now getting reputations for being rather whiffy and stinky over summer because you have got 10 times more people staying in them than you have just living in them? Whose obligation is that; is that the water authority's obligation to lead the charge on devising the plan, setting the agenda and coming up with a budget, or is that a local government issue?

**Mr WRIGHT** — That is a local government issue, but the water corporations would be a key stakeholder in that process.

**Mr RIORDAN** — So if the shire does not do anything, then the water authority does not do anything either?

**Mr WRIGHT** — The shire has the environmental public health responsibilities locally. I am assuming the properties have been built with planning permits, and as part of that process they would have had approval to put in on-site wastewater management systems. Among the questions that we see pop up a bit with this are how well are they maintained, how well are they regulated and how well are they enforced?

Often we do see that where there has been a lack of resource to properly manage wastewater management systems, there will become pressure to apply a sewerred solution. It could well be that simply managing and maintaining the on-site systems will overcome the sorts of issues that you are talking about. Sewered systems probably should be an option of last resort because they are capital intensive and energy intensive and represent a significant cost.

If there is an argument around growth and development, I think that is a different argument, which would then come into the planning process.

**Mr RICHARDSON** — Thank you, Tony, for popping in. My questions will be quick but they go to planning, and planning schemes in particular, and your comments previously about risk and how much water corporations or local government are wearing. Do you have an assessment of potential risk, loss or liability that local governments that are the subject of our inquiry might be taking on at the moment with some of these encroachments on buffer zones and I guess, as you termed it, some of the encroachments on things that they should be quite militant about in terms of their planning scheme?

**Mr WRIGHT** — Yes. I certainly see a community loss when buffer zones are eroded and planning is changed near to critical assets. This was raised in the EPA review not just by us but also by other industries that had had similar experiences, with the composting industry being one of note. I think where there is greyness councils will incur additional costs because they will be constantly defending or going through VCAT processes. So that is resource impact.

In terms of community impacts, when you get encroachment on critical assets which produce odour in particular or noise and you then increase the operating costs for those assets, you start to require investment in new capital, and eventually there will be pressure to relocate those assets.

**Mr RICHARDSON** — In that example that you gave from a decade ago, who wore that cost? Was that a joint cost with the water authority and local government? What was the nature of that kind of a buffer zone?

**Mr WRIGHT** — In terms of the VCAT hearing, whichever party was presenting would have worn that cost. Certainly the water corporation would have worn their VCAT costs. I imagine the local applicant would have worn some of those costs, and council may or may not have worn some costs — I am not sure about that.

**Mr RICHARDSON** — Okay.

**Mr WRIGHT** — In terms of what the future costs will be, I guess we will see what happens in that space.

**Mr RICHARDSON** — So from your experience, and I guess going to the terms of reference of this inquiry, what advice would you have for us for recommendations we might be able to put forward that would strengthen the sustainability of rural and regional councils, but particularly small rural councils, going forward?

**Mr WRIGHT** — I think we detailed that, recognising that our response is quite narrow. Our recommendation is where possible to clarify those core standards and shift the discussion as much as possible to how to efficiently meet those standards.

**The CHAIR** — We have around 10 more minutes, so I might open it up to others for a final question. Just to build on the question from the member for Mordialloc, in terms of those guidelines that you just mentioned, where would be the best place for those to be parked within the act? Where do you feel that would need to happen?

**Mr WRIGHT** — I have not thought that through, so I would not be prepared to give you advice on that one without having considered it.

**Mr RIORDAN** — My question once again is around our rural areas: we have got the water provider for potable water; we have the catchment management authorities; we have Southern Rural Water, or whatever the equivalent is, for the underground and the catchment; and then of course we have local councils. So there is sort of this growing overlap of responsibilities. Some of them are referrals, some of them are compulsory referrals, some of them are advisory — there is a whole series — and of course that all adds to the cost of planning and development and it adds to the complexity. Council obviously is the coordinating authority for when people want to do things. Is there an opportunity to streamline the way we manage water assets in terms of the cost and complexity to the way shires operate?

**Mr WRIGHT** — I think you have picked up on an issue which developers I imagine in particular would find frustrating.

**Mr RIORDAN** — Yes, I have had two emails since I have been sitting here on this particular topic.

**Mr WRIGHT** — Yes, so it is just knowing which agency they need to be working with. I think there has been some work done already to streamline referrals, and water corporations are not necessarily mandated referrals anymore, which means that if they see an issue, they then have to see it as part of the public process. I think looking at referrals would still be worth looking at. I think even though there has been work done on it and it has been simplified, it could still be simplified further, and maybe there needs to be a bit of work around particular triggers that should go in certain directions. I am still not convinced that is entirely right.

**Ms HALFPENNY** — In your submission you gave an example of the domestic wastewater management plans and how funding was provided. Some councils did it — some did it reasonably well; some did not do it very well — and there was no follow-up. I guess this fits in with that whole idea of what you were talking about in terms of councils having priorities. You get your funding and then you look at the amount of money that you have, the income that you have, and what you would do. How would you see that being implemented? Would it be legislation? Would you see it as just guidelines? Is it community consultation? Have you thought about how that would come about?

**Mr WRIGHT** — I think it comes back to a broad approach, federal and state based, in how you provide funding for what sort of projects and to thinking through the whole-of-life implications of that funding. You have got a situation where state government provided some reasonably generous funding to regional councils to develop their domestic wastewater management plans. From that work there were some small town sewerage schemes which were identified and funded and delivered, and then there were a whole range of other activities around on-site septic management and those types of things, which some councils have subsequently resourced several years after the fact and others have never been able to resource. Look, I know from my experience in water corporations that if you are given a bucket of money to do a capital project, that is great and appreciated, but you need to really think through the whole-of-life cost implications of these programs.

**Ms HALFPENNY** — Otherwise it is a waste of money sometimes.

**Mr WRIGHT** — Or it may lead to outcomes you do not expect. So small town sewerage schemes, for instance, are not revenue earners. They earn revenue but their costs generally exceed their income, and so there is a flow-on effect eventually to whole-of-district pricing, for instance.

**Mr RAMSAY** — Just a quick one. It is probably not quite related, Tony, but given we have a bit of time — I am interested in the creature of VicWater. You represent corporations, you represent the Victorian Environmental Water Holder, with a couple of CMAs thrown in.

**Mr WRIGHT** — We are an industry association much like the MAV — under a different instrument, though. They are obviously under an instrument of Parliament. We work with our members on a whole range of different projects. We do three things, basically. We work in policy areas, we provide collaboration frameworks and we facilitate projects on behalf of the industry, like whole-of-industry strategic sourcing or our Intelligent Water Networks project, which is all about innovation and whole-of-sector learning and experimentation. So they are the three things we do.

**Mr RAMSAY** — So you are funded by statutory authorities?

**Mr WRIGHT** — By water corporations. So we get about 60 per cent of our funding from water corporations, and the rest of our funding we raise through events and other things that we run.

**Mr RAMSAY** — Did you have much of a role to play in the living water document?

**Mr WRIGHT** — The *Water for Victoria* document?

**Mr RAMSAY** — Yes.

**Mr WRIGHT** — Yes, definitely. We represented our members in terms of providing feedback on that document.

**The CHAIR** — Mr Wright, thank you very much for being here, for your submission and for your time, energy and effort.

**Mr WRIGHT** — No worries. Thank you.

**Witness withdrew.**