



Submission on Draft Regulatory Framework for LWUs

I would like to raise 3 main inter-related concerns with the draft regulatory framework:

1. It takes the department's perspective rather than as 'what this means for LWUs'
2. The link between 'planning' and 'reporting' isn't clear
3. The planning 'outcomes' are a 'laundry list' not a management framework.

The evidence I gathered in my report for the department on integrating the Best Practice Management (BPM) and Integrated Planning and Reporting (IP&R) Frameworks was that the majority of Local Water Utilities (LWUs) aren't complying with requirements for:

- BPM: 80% don't have a current Integrated Water Cycle Management Strategy (IWCM) or Strategic Business Plan (SBP) or
- IP&R: particularly the Resourcing Strategy, over half don't have a current Long Term Financial Plan (LTFP) or Asset Management Planning documents (AMPs).

LWUs clearly need convincing of the value of investing in strategic planning (contributing factors to under-investment were identified in section 2.3.1 of my report). It cannot simply be viewed as a hurdle to jump in order to secure grants!

The issues are broader: **strategy only adds value to the extent that it informs performance** (outcomes 'on the ground'). My report (section 2.2.1) found urban water functions aren't clearly identified in the Delivery Program (DP) or Operational Plan (OP) for many LWUs. It is in the DP and OP – not the IWCM, SBP, LTFP, AMPs or other strategic plans – that ultimately defines the activities the LWU will undertake to perform its urban water functions. Councils are established under the NSW Local Government Act, and the Act mandates IP&R as the framework within which LWUs are to operate their water supply and sewerage businesses.

It is the DP and OP where councils define what we do, what it costs, what we're aiming to achieve and how we'll monitor whether we're on track. Yet my report found (section 2.2.2) few LWUs defining robust organisational objectives for urban water functions. In section 2.2.3-5, I highlighted the shortcomings amongst LWUs when translating 'organisational objectives' (100% of water supplied complies with Australian Drinking Water Guidelines) into 'asset management objectives' (implement a Drinking Water Quality Management System), and in utilising this to *monitor*, rather than simply *report on*, performance (the difference being 'are we going to supply water that complies?' and 'did we supply water that complied?'). Little wonder, then, that I found (section 2.2.6) few councils are actually using their own performance data they submit annually to the department!

Unless and until planning and reporting in LWUs are more robustly integrated, reporting on infrastructure assets will fall short of where it needs to be (see section 2.2.7). In my mind, the real opportunity in all this – what will drive real improvements – is to increase the visibility of performance (and risks of under-performance) for Audit, Risk and Improvement Committees who are tasked (under section 428A, LG Act) with keeping this under review.

This (I hope) explain my concerns #1 and #2 above: it is fine for the department to explain its own regulatory role in a way that distinguishes ‘strategic planning’ and ‘performance reporting’... but if the department is fair dinkum about improving performance in LWUs, it needs to help them understand how all the pieces of the puzzle fit together... and this is fundamentally about *integrating* planning and reporting in IP&R!

Concern #3 follows on directly. The *Draft Interim Guidance about using IP&R for LWU Strategic Planning* (pages 18-22) highlights how each of the strategic planning outcomes expected of LWUs are addressed in the various IP&R documents albeit, in some cases, with support from ‘other strategies’ (e.g., a water security study).

But the list of outcomes in the draft is a ‘laundry list’. I strongly suggest – again, in order to help LWUs understand how all the pieces of the puzzle fit together – that these be redrafted into a management systems framework.¹ As discussed in section 1.4 of my report, the most appropriate framework is ISO 55001:2014.

A number of the ‘outcomes’ in the draft – service needs, water security and quality, environmental impacts, system capacity and efficiency, other risks and challenges, sound pricing and prudent financial management, integrated water cycle management – relate to what ISO 55000 refers to as **organisational objectives** (these are generally what LWUs should identify in their DP, and general purpose councils in their Community Strategic Plan).

ISO 55000 identifies **value** as the first of 4 ‘asset management fundamentals’. Assets exist to provide value to the organisation and its stakeholders, and the value to be realised from those assets is to be determined *by* the organisation and its stakeholders in accordance with organisational objectives. In other words, if a LWU isn’t meeting service needs, if water isn’t of sufficient quality, if pricing isn’t fair, if it isn’t prudent in financial management, if it isn’t managing risks, etc., etc., then it isn’t delivering the ‘best possible value’ to its customers.

If the department is to help LWUs understand how all the pieces of the puzzle fit together, it needs to distinguish these organisational objectives (value to be realised, outcomes to achieve) from what ISO 55000 refers to as **asset management objectives**.²

The second ‘AM fundamental’ is **alignment**. ISO says asset management is about translating organisational objectives into technical and financial decisions, plans and activities.³ The ‘outcomes’ in the draft combine, and therefore confuse, these two things.

A number of ‘outcomes’ in the draft – solutions to deliver services, resourcing needs, revenue sources, sound strategic decisions, and aspects of sound pricing and prudent financial management as well as integrated water cycle management – are best understood as asset management objectives, distinct from ‘organisational objectives’. It would be helpful if the department distinguished organisational objectives (e.g. water security) and asset management objectives (e.g. a new bore and so activities and resources to establish it) in its ‘outcomes’ for strategic planning. The two are related, but different.

¹ I wonder if there is, subconsciously or consciously, a distinction being made here between the old ‘best practice management’ framework (for LWUs) and new ‘regulatory’ framework (for DPE)?

² ISO defines ‘asset management’ itself as “coordinated activity to realise value from assets”.

³ Asset management *plans* (AMPs) detail the “activities, resources and timescales to achieve the organisation’s asset management objectives”. This means the DP and OP are effectively ‘AMPs’ as they detail what the LWU plans to do, what resources it will allocate to do it and how performance will be monitored and reported.

I think the confusion (or at least lack of differentiation) between ‘outcomes’ to be achieved and ‘outputs’ (and activities and resources) to achieve them is related to the missing link between ‘strategic planning’ and ‘performance reporting’ in the draft framework.

At the risk of sounding critical (I don’t want to be, but the point needs to be made), there was no mention of performance management or reporting in the draft ‘outcomes’ until I recommended this be added (under ‘making and implementing strategic decisions’). It seems to me this was missed because the focus of the department (and working group) under the ‘strategic planning’ umbrella (distinct from the ‘performance reporting’ umbrella) has been on the *production* of strategic plans (IWCMs and SBPs) not their *implementation*.

But as I said above, strategy only adds value to the extent that it informs performance. This is where the fourth ‘asset management fundamental’, **assurance** comes in.⁴ ISO emphasises that “the need for assurance arises from the need to effectively govern an organisation”. This is the final ‘piece of the puzzle’ that I strongly suggest that, if neglected, will undermine the department’s admirable efforts to reduce risks associated with urban water services.

This is, of course, all about risk. I’m conscious that, for many water industry specialists, the language of ‘risk management’ in AS 31000 resonates far more than that in ISO 55000... but as I argued in section 1.4, risk management is a subset of asset management. Without the broader framework to help translate organisational objectives into asset management objectives, LWUs won’t be clear on their objectives or how to achieve them... risk is then about managing the *uncertainty* associated with those objectives.

Again, in my mind, the real opportunity in all this – what will drive real improvements – is to increase the visibility of these issues for Audit, Risk and Improvement Committees (ARICs) who are tasked (under section 428A of the LG Act) with keeping them under review.

So, to be clear, I strongly suggest the ‘outcomes’ be redrafted in a way that distinguishes:

- **Organisational objectives** (outcomes to be achieved)
- **Asset management objectives** (outputs/activities and resources to realise these outcomes), noting that the strategic planning process to develop these will generally include evaluating options and alternatives (especially, the trade-off between performance, cost and risk); it may also lead to a review of organisational objectives
- **Governance** (framework to provide assurance objectives will be achieved).

I’m not suggesting these terms be used, simply that the management system framework in ISO 55000 be used (in the background) to inform the structure of the regulatory framework – or, better, the *best practice management framework!!!* – for LWUs. I acknowledge this may expand the ‘strategic planning’ element into ‘performance reporting’... but isn’t this essential anyway? It’s what much of the Strategic Business Plan under BPM was about!

My final point is *all* of these elements (‘outcomes’) *should* be clearly visible within the IP&R framework (supported by ‘other strategies’, e.g., water security studies). As noted earlier, the IP&R framework is mandated by the LG Act as the way all LWUs must operate. The department is most likely to achieve meaningful reductions in risks associated with town water by helping LWUs to improve their IP&R practice (leveraging off ARICs to do so).

⁴ The third AM fundamental, leadership, will be facilitated by better strategy and performance management but perhaps isn’t as directly relevant to the issues discussed here... but it is in terms of implementation!