
Queensland Water Regional Alliance Program (Q-WRAP)

Introduction

The Local Government Association of Queensland (LGAQ), *qldwater*, along with elected representatives and staff from numerous Councils have been cooperating in programs for the development of the Local Government water industry collaboration for the past five years. This action was in part prompted by industry recognition of institutional change in other Australian jurisdictions and the continual restructures in South East Queensland. It was predicted that there would be pressure to restructure the regional Queensland water industry which, along with NSW, is the only part of Australia where water services are provided primarily by local government. This new joint Department of Environment and Resource Management (DERM), LGAQ and *qldwater* program, (Q-WRAP) was established to further promote regional collaboration and prepare the industry to face such pressure.

State Government agencies have often partnered in these initiatives but over the past year, cooperation with DERM has increased markedly as a result of the “*Urban Water Services Memorandum of Agreement*” (MoA) which aims to support:

- An outcomes driven and streamlined regulation and reporting regime resulting in better decision making at a local, regional and state level;
- Identification of risks and improvement in the way that risks are managed across urban water service providers;
- Improved pricing arrangements and financial planning within urban water service providers that support the long term sustainability of their water assets / infrastructure;
- Promotion of skills development and careers pathways resulting in improved attraction and retention of skills within the water industry; and
- Opportunities for the Local Government water sector to consider innovative service delivery models while continuing to own and manage these assets and provide acceptable levels of service to all local communities.

Additionally, in recognition of the common challenges facing many small regional Councils, LGAQ and *qldwater* have, over the past three years, promoted the potential benefits of regional collaboration in the provision of urban water services. Work to date has focused on seeking common agreed principles for governance of the Queensland urban water industry and building relationships among like-minded Councils in specific regions where collaboration is desired. The aim has been to assist Councils in collaborative efforts and build examples and case studies of the short and long-term benefits that can be achieved.

The need for cooperative regional approaches in Queensland's dispersed urban water industry is clear but it is not obvious that one single type of collaborative approach will be beneficial for all of regional Queensland. The Queensland Government has reaffirmed their stance that there is no current appetite for mandatory institutional reform. However, in 2011 national led reviews of the urban water industry were released independently by Infrastructure Australia, the National Water Commission and the Productivity Commission, and all

questioned the institutional arrangements for regional Queensland (and NSW) and recommended wide-spread integration. One key rationale was to achieve economies of scope and scale. Such economies and other benefits promoted by these national reviews have been questioned by many in the industry as not taking into account factors such as distance, capacity and historical development of the Queensland industry. These factors need to be assessed prior to any potential top-down decisions on water reform.

Scope

Q-WRAP has been developed as an industry (Council) led initiative to investigate a range of matters including possible institutional models for urban water service provision outside of SEQ. This program has been partially funded by DERM and seeks co-investment from Councils. The Program will invite expressions of interest from any group of regional Councils to undertake analyses and review of the institutional arrangements for water service provision in their region. Each pilot group will be required to review, at a minimum, three separate individual institutional models detailing;

1. The history of their specific review;
2. The characteristics of the region, including the systemic issues (risks) relating to urban water services provision;
3. A critique of the current regulatory arrangements in which any institutional models would reside;
4. A comprehensive evaluation of the models investigated;
5. A description of the key learning's from the Pilot outcomes; and
6. A key set of recommendations for institutional change (if relevant).

In order to assist the pilot groups to develop a report outlining these concepts, a collective pool of resources has been ring fenced in order to create a dedicated 'bid pool'. The 'bid pool' is an amount of DERM funding that has been allocated to assist Councils in acquiring technical consultancy services dedicated to undertaking review processes required for the Program. Criteria and access to the 'bid pool' funding, including the necessary contribution from each pilot region, will be developed over the upcoming months with the funding made available later in the Program period.

Q-WRAP does not extend to an implementation phase following such investigations. Rather, the Program is aimed solely at supporting Local Governments to investigate a range of possible institutional models depending on local issues and key risks in the provision of urban water services.

Pilot areas / case studies

Pilot groups will be invited to participate and will be selected on the basis of fulfilling the following criteria:

- Existence of regional cooperative arrangements in other (non-water) areas;
- Endorsement (at a Council level) by all "Pilot" Councils to participate in the Review Program;
- Confronting significant capacity issues (so Pilot can scope real improvements);
- Presence of potential short-term and long-term benefits from restructured arrangements for urban water provision; and
- Demonstration of commitment through in kind and direct financial investment in Q-WRAP.

Next steps

1. LGAQ / *qldwater* project team to visit potential pilot regions to discuss the benefits and risks of participation in the program.

2. Each Council in proposed pilot regions to make a resolution outlining their position on participation in the program.
3. Review of regional risks and benefits of various collaborative models.
4. Recommendations on potential models for regional cooperation to be considered by individual Councils.

For further information, please contact:

qldwater: Mr Rob Fearon - Director, Innovation Partnerships
Ph: 3252 4701, Email: rfearon@qldwater.com.au
or visit: www.qldwater.com.au

LGAQ: Mr Ross Kirkman - Senior Advisor - Infrastructure
Ph: 3000 2237, Email: ross_kirkman@lgaq.asn.au
or visit: www.lgaq.asn.au

Risks and Benefits of considering regional collaboration for provision of water services

| Benefit(s) | Comment |
|--|--|
| Reviewing existing business practices to achieve economies of scale at a regional level | The desktop analysis should review business practices and risks for water entities at a regional level and identify potential economies of scope and scale as well as those areas where such economies are not feasible because of distance and other factors. |
| Value for money analysis of future options | The desktop analysis should provide recommendations that are financially sound and achievable from the point of view of the existing industry. The review process intends to provide recommendations using analyses of both technical and financial aspects of Council water businesses. |
| Identification of resource sharing and joint purchasing opportunities | The review should identify opportunities at a technical level to collaborate with neighbouring Councils within the region. Pilot groups will have the opportunity to conceive, explore and develop opportunities as they currently exist, as well as strategic consideration of future opportunities. Hence while the final report will focus on future institutional opportunities, Pilot Groups will also be able to focus on short term, immediate resource sharing and joint purchasing opportunities. |
| Identification of skills training and retention opportunities for water industry workers | Attraction and retention of appropriate staff is difficult for many Queensland water businesses and this problem is increased through competition with mining and other industries and the remote location of some water and waste water services. The potential costs and benefits of joint approaches to overcome these problems should be identified through the review. |
| Potential for future funding proposals to be initiated at a regional level | The development of regional co-operatives will likely enhance the ability for Local Government's to attract additional funding beyond the scope of the current project. While there are no currently known plans for additional funding beyond the 2013 deadline for this program, it is likely that any regional collaborative partnerships would improve the favourability of any future grant applications at both a State and Commonwealth level. |
| Potential to leverage off existing regional collaborations | There is an opportunity for some areas, to leverage off pre-existing regional alliances, particularly from the technical perspective, including Regional Road Groups and ROC's/LGA's |
| Be prepared for the possibility of future state-led reforms | Reform of the urban water industry has occurred in other Australian jurisdictions and in South East Queensland. A regional industry proactively demonstrating self-improvement and transparent due diligence will be in a stronger position if further water reform occurs. The information generated by the review should inform participating Councils about the real costs and benefits of regional collaboration and institutional change. |

| Benefit(s) | Comment |
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| Demonstrate leadership within the state and nationally | Self-determined regional collaboration is almost unheard of in the national local government water industry. Demonstrating leadership in this area could benefit the entire industry as well as making a region more attractive for funding programs and other partnerships with State Government and private industry. |
| Increase negotiating power with the State and private providers | The very existence of collaboration on a regional review process will increase negotiating power with State agencies and private service providers. One negative aspect of the large number of small WSPs in Queensland is a lack of negotiating power with providers and regulators in determining future arrangements and partnerships. |
| Achieve fit-for-purpose benchmarking | Performance review and benchmarking of water utilities is becoming more common internationally and in Australia. Being benchmarked with like-industry members is more likely to be achieved through a self-led process of performance reporting and internal review. This should be more achievable through regional collaboration. |

| Risk(s) | Discussion |
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| Potential for one off cross subsidisation | The risk associated with any cross regional approach is rate payers cross-subsidising the water operations of a neighbouring Council. While the design of the program is to focus on initiatives to establish more effective regional collaboration through efficiencies in economies of scale for the pilot region, the report will need to carefully consider the impact of recommendations on cross subsidisation. |
| No funding attached to the implementation stage | At this stage, the program is only funded to undertake the desktop analysis of institutional models of each pilot group. The recommendations put forward for any decision at an elected level must convey that no additional funding is dedicated to implement any recommendations. However, as noted in the above in the 'benefits' section, there will be a fundamental advantage for groups that can identify cross-boundary regional collaboration when submitting future funding applications. |
| Endorsement and implementation of recommendations | While the desktop analysis will be a useful guide to develop a long term vision of regional water provision, ultimately the decision to implement the recommendations rests solely with Councils to endorse or otherwise. Review and consideration of three alternative models of running the regional water businesses is a requirement of all participating Councils. |
| Lack of capacity to contribute matching funding to the program | It has been indicated that the pilot groups will have to contribute cash and 'in kind' support on top the funding allocated by the Department. The support will be required to be up to 50/50 (match funding) with the amount available through current DERM funding. |

| Risk(s) | Discussion |
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| Some councils have noted that this form of review could provide the first step towards 'forced' amalgamation of regional water businesses | This is a real risk given the review process would be a critical first step in establishing regional water businesses. The risk is mitigated by the industry led and controlled nature of the program and is small compared to the greater risk of being ill-prepared and un-informed in the face of potential future institutional change. Furthermore, as commented earlier in this document, the State Government has put on the record that it has no current appetite for mandatory industry reform. |
| My Council has less to gain from this process than neighbouring Councils | This is true for many Councils in Queensland but does not justify lack of participation if relatively small gains are possible (so long as they do not come at disproportionate cost). Moreover, Councils with the least to gain from collaboration are inevitably the ones with the most to lose in forced reform. |