

Using the Integrated Planning and Reporting framework for local water utility strategic planning

Guidance

July 2022



Acknowledgement of Country

The Department of Planning and Environment acknowledges that it stands on Aboriginal land. We acknowledge the Traditional Custodians of the land and we show our respect for Elders past, present and emerging through thoughtful and collaborative approaches to our work, seeking to demonstrate our ongoing commitment to providing places in which Aboriginal people are included socially, culturally and economically.

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Introduction

The ‘Regulatory and assurance framework for local water utilities’ outlines how the Department of Planning and Environment applies its risk-based and outcomes-focused approach to the regulation and assurance of local water utilities.

Under the regulatory and assurance framework, local water utilities are responsible for developing and implementing their own strategic planning. Our overall priority is to ensure strategic planning outcomes – outlined in the framework – are achieved to a reasonable standard.

Generally, we will not specify the tools, processes and approaches that a utility should use for strategic planning. There is no single ‘best practice’ way for this work to be delivered. Local water utilities vary in size, geography, demographics, challenges, and organisational arrangements, which means strategic planning approaches and outputs can be significantly different across regional NSW.

We welcome the many council-owned water utilities that have expressed interest in using the Integrated Planning and Reporting (IP&R) framework of the *NSW Local Government Act 1993* as a vehicle for local water utility strategic planning. The value of the IP&R framework as a standardised and well-understood approach to strategic planning and reporting is widely recognised by the local government sector.

The purpose of this document is to provide guidance on how local water utility strategic planning could be integrated into the IP&R framework. However, integration is not mandatory, and this document is not intended to be prescriptive.

Local water utilities that use the IP&R framework for strategic planning will need to meet and be assessed against the department’s regulatory expectations for strategic planning, as set out in chapter 3 of the ‘Regulatory and assurance framework for local water utilities’. This guidance provides information about demonstrating how those outcomes are met by using the IP&R framework.

Some councils have already incorporated elements of the IP&R framework into their local water utility strategic planning. For others, the IP&R framework may not be an appropriate or desirable approach. In some instances, the framework may need to be supplemented to adequately cover key outcomes of local water utility strategic planning (such as understanding water security).

As such, this document is intended as a starting point to inform councils of how they can approach using the IP&R framework for local water utility strategic planning.

We will continue to work with interested councils and joint organisations of councils over the next cycle of IP&R (from 1 July 2022 to 30 June 2025) to support pilots using the IP&R framework for local water utility strategic planning. The intention is to learn from these councils and share their knowledge, expertise, and learnings with the sector more broadly through future updates of this guidance. Councils interested in participating in the pilot process should contact the Town Water Risk Reduction Program at regional.town.water@dpie.nsw.gov.au.

Key roles

The **Department of Planning and Environment** oversees and supports local water utilities in their delivery of safe, secure, efficient, sustainable, and affordable water and sewerage services and management of risks to service provision. It does this by regulating and providing advice and support under the NSW *Local Government Act 1993* and the NSW *Water Management Act 2000*.

The **Office of Local Government** (OLG) administers the Local Government Act and oversees the IP&R framework, including producing mandatory guidelines and a handbook for the use of councils. OLG also oversees council and local water utility governance, financial management and reporting under the Local Government Act.

Other NSW Government regulatory agencies are responsible for overseeing local water utilities within their own regulatory and assurance frameworks. These include NSW Health, the NSW Environment Protection Authority, the Natural Resources Access Regulator, Dams Safety NSW, and the Independent Pricing and Regulatory Tribunal of NSW.

In relation to training and development, the following non-government bodies also play a key role:

- Local Government Professionals Australia NSW – [Integrated Planners Members Network](#) – provides a forum for IP&R practitioners to share knowledge and problem solve
- [Local Government NSW \(LGNSW\) Learning and Development](#) – provides training for council staff and elected councillors related to the IP&R framework.

How to use this guidance document

This document acts as supplementary guidance to the ‘Regulatory and assurance framework for local water utilities’ and the OLG’s [IP&R guidelines \(PDF 862 KB\)](#) and [handbook \(PDF 8.7 MB\)](#).

This document:

- sets out the key features of the outcomes-based approach to strategic planning contained in the regulatory and assurance framework
- provides an overview of the IP&R framework and how it could potentially integrate with local water utility strategic planning
- describes the next steps we will take to work with councils interested in integrating local water utility strategic planning with the IP&R framework, including through pilot projects with interested councils in the next cycle of IP&R (1 July 2022 to 30 June 2025).

While the focus of this guidance is using the IP&R framework for local water utility strategic planning, the IP&R framework is about both planning and reporting. As such, the guidance also extends to performance monitoring and reporting by councils, even though this is a distinct ‘function’ within the IP&R framework.

Local water utility strategic planning

The department's expectations

As outlined in the ‘Regulatory and assurance framework for local water utilities’, local water utilities can best meet the needs of their customers and manage key risks when their decisions and activities are based on effective, evidence-based strategic planning.

Strategic planning is crucial to identify and manage key risks to:

- water security
- water quality
- the environment
- assets and infrastructure
- customers
- the utility’s financial sustainability.

Strategic planning also helps local water utilities ensure they understand the needs of their communities and customers and how best to meet those needs. Strategic planning helps local water utilities plan infrastructure investment, ongoing operations and maintenance, and to create a pricing structure necessary to effectively manage risks.

We want all local water utilities to undertake effective, evidence-based strategic planning. This will ensure utilities deliver safe, secure, accessible, and affordable water supply and sewerage services to customers and can manage key risks now and in the future even in the event of significant shocks.

Local water utilities’ strategic planning contributes to the water security of their regions and the entire state. We will work in partnership with local water utilities to support integration of state, regional and local water utility strategic planning. We will play a leadership role and give access to our resources (including models and data) as appropriate.

We also give assurance of effective, evidence-based strategic planning and effective management of key risks to service provision.

Under this assurance role, we establish what outcomes we expect effective, evidence-based strategic planning to achieve and assesses whether a local water utility’s strategic planning achieves these outcomes to a reasonable standard.

While we set expected outcomes, utilities can decide what approach to take to meet them. Generally, we will not specify the approaches, processes and tools that a utility should use for strategic planning.

Local water utilities are responsible for developing and implementing their own strategic planning. There is no single best-practice way for this work to be delivered, although we will give ‘how to’

guidance, templates, case studies and tools to facilitate a streamlined process. Our overall priority is to ensure the defined strategic planning outcomes are achieved to a reasonable standard.

Local water utilities vary in size, geography, demographics, challenges, and organisational arrangements, which means strategic planning approaches and outputs can be significantly different across regional NSW.

Gaps in a local utility's strategic planning may expose regional communities to risks. We will proactively help utilities to identify any gaps. Where gaps are identified, we will give appropriate advice and guidance in a collaborative way. This will help local water utilities reduce risks and strengthen their strategic planning over time.

Expected outcomes

As outlined in the 'Regulatory and assurance framework for local water utilities', for effective, evidence-based strategic planning, we expect local water utility strategic planning to achieve the following outcomes to a reasonable standard:

- **Understanding service needs**
 - What are customers' needs, values, and preferences?
 - What current and future demands are placed on water supply and sewerage systems?
 - How will the local water utility consider and address objectives, priorities and evidence of other relevant state or regional strategic planning, including the NSW Water Strategy and regional water strategies?
- **Understanding water security**
 - What is the local water utility's access to current and potential water supply sources?
 - How will the local water utility address current and future risks around continuity and reliability of access to water supply sources?
- **Understanding water quality**
 - How will the local water utility address current and future water quality risks in its supply systems?
 - How will the local water utility meet relevant regulatory standards, such as on drinking water quality management?
- **Understanding environmental impacts**
 - How will the local water utility address current and future environmental impact risks in its sewerage systems?
 - How will the local water utility meet relevant regulatory standards, such as licence requirements set by the environmental regulator?
- **Understanding system capacity, capability and efficiency**
 - What is the capacity and capability of systems to deliver water (and future capacity and capability needs)?
 - What is the capacity and capability of its systems to collect and treat sewerage (and future capacity and capability needs)?

- How will the local water utility consider water efficiency in its systems?
- **Understanding other key risks and challenges:**
 - How will the local water utility address other key risks in its systems now and into the future?
 - How will the local water utility meet relevant regulatory standards (such as dam safety)?
 - How has the local water utility considered climate risks?
 - How is the local water utility planning for drought?
 - How is the local water utility planning and preparing for incidents, emergencies, and extreme events and ensuring continuity of service?
- **Understanding solutions to deliver services**
 - How are options for delivering services and managing risks analysed?
 - How are supply and demand side options for water supply identified and evaluated?
 - How are assets managed over their life cycle to ensure service levels are met?
 - How are preparedness and resilience management during extreme events considered?
- **Understanding resourcing needs**
 - What resourcing is needed to deliver services and manage risks?
 - What are the life-cycle costs of managing assets?
 - What are the technical and operational skills needed to deliver services and manage risks?
 - How does the local water utility do workforce planning?
- **Understanding revenue sources**
 - What are the revenue sources available to fund the delivery of services?
 - What is the customers' ability to pay for services?
 - What is the customers' willingness to pay for services?
- **Make and implement sound strategic decisions**
 - Based on its understanding of, and adequate consideration of, service needs, risks, and resources, how does the utility set service levels and efficient revenue requirements for providing services over an adequate forward period to capture asset lifecycle?
 - How are customers engaged in decision-making and informed of choices between service levels, risks, and costs?
 - How does the local water utility ensure its long-term financial sustainability, including managing unexpected financial shocks in future periods without having to introduce substantial or socially destabilising revenue or expenditure adjustments?
 - How does the utility implement service levels and monitor, and report on, performance to understand if it is meeting service levels and managing risks?
- **Implement sound pricing and prudent financial management**
 - How does the utility set and structure its water supply and sewerage pricing to recover its revenue requirement, promote efficient use of water, and achieve equitable and affordable pricing and intergenerational equity?

- How does the utility implement a cost-reflective and consumption-based tariff structure, long-term stable price path and intergenerational equity?
- How does the utility set appropriate developer charges to recover the infrastructure cost of servicing growth?
- How does the utility consider payment of tax equivalents and dividends?
- How does the utility consider affordable access to essential water services for all customers?
- How does the utility ‘ring-fence’ the water supply and sewer business fund from council’s general-purpose fund?
- **Promote integrated water cycle management**
 - How are urban water cycle outcomes including water security, public health, environmental and urban amenity and liveability identified, achieved and funded?
 - How does the utility consider opportunities and methods to increase resource efficiency and recovery in urban water management?
 - How is the local water utility supporting customers to increase water literacy and support water efficiency measures?

We consider a reasonable standard for each outcome is met if the utility considers and addresses an outcome in a way that is:

- **sufficient** – underpinned by evidence-based analysis that supports the conclusions reached
- **appropriate** – underpinned by relevant departmental guidance and industry standard approaches to conducting planning and reaching conclusions
- **robust** – underpinned by evidence that draws on appropriate sources and recognises and rebuts potential alternative interpretations.

Importantly, ‘sufficient’, ‘appropriate’, and ‘robust’ are 3 separate but interlinked characteristics we assess when considering whether strategic planning outcomes are achieved to a reasonable standard, rather than tiered levels of assessment outcome. The assessment considerations we will apply and how these may be addressed are set out in more detail in the ‘Regulatory and assurance framework for local water utilities’.

Integrating local water utility strategic planning with the IP&R framework

The IP&R framework is administered by OLG under the Local Government Act. It sets out a comprehensive, mandatory framework for councils to plan for, deliver and report on all activities, including urban water functions.

Overview of the IP&R framework

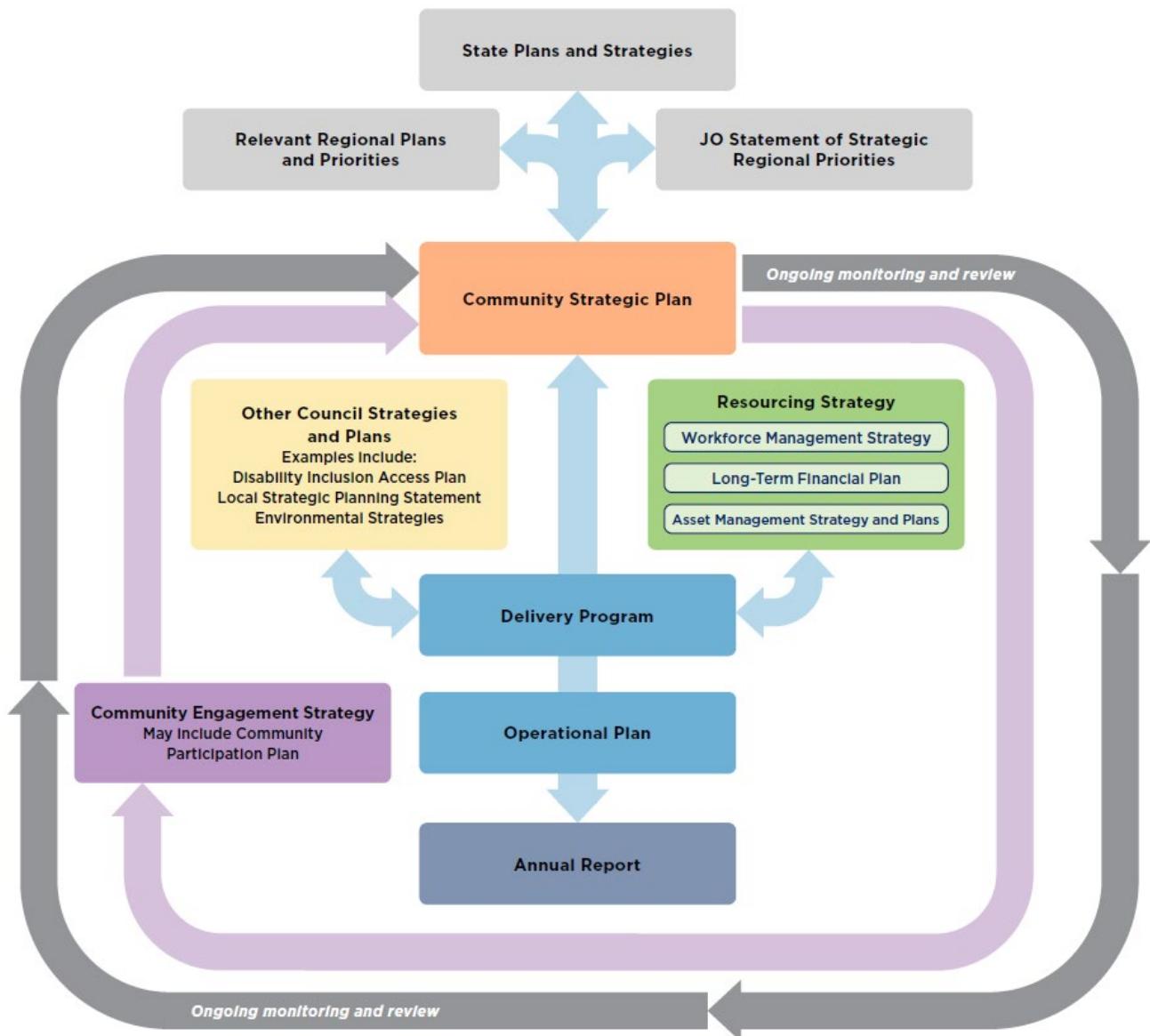


Figure 1. Office of Local Government Integrated Planning and Reporting (IP&R) flowchart, 2021

The IP&R framework consists of the following key components, as defined in the [OLG Integrated Planning and Reporting Guidelines 2021 \(PDF 862 KB\)](#):

- **community strategic plan** – the highest level of strategic planning undertaken by a council, with a ten-year plus timeframe. All other plans must support achievement of the community strategic plan objectives
- **delivery program** – the council's commitment to the community about what it will deliver during its term in office, detailing the principal activities it will undertake to perform its functions (including water supply and sewerage services and implementing the strategies in the community strategic plan), and including a method of assessment to determine the effectiveness of activities in achieving its objectives
- **resourcing strategy** – a long-term strategy for the provision of resources to perform council's functions detailed in the delivery program. The resourcing strategy includes 3 interrelated elements:
 - long-term financial planning for a minimum period of 10 years to inform decision making during the preparation and finalisation of the community strategic plan and the development of the delivery program
 - asset management planning, which includes an asset management policy, an asset management strategy and asset management plans for each class of assets to support the community strategic plan and delivery program
 - workforce management planning that addresses the human resourcing requirements of a council's delivery program
- **operational plan** – details the activities a council will engage in during the year as part of the delivery program covering that year. It includes the council's annual budget and statement of revenue policy
- **annual report** – reports back to the community on the work undertaken by a council in a given year to deliver on the commitments of the delivery program via that year's operational plan. Councils must also report on their financial and asset performance against various performance benchmarks set by OLG.

A report on the progress of implementation and the effectiveness of the community strategic plan called the 'state of our city' (formerly referred to as 'end of term report') must be presented to and endorsed at the second meeting of a newly elected council.

The role of council staff, councillors and audit, risk and improvement committees

Under the Local Government Act, councils must act within the guiding principles in relation to planning and reporting, the exercise of council functions generally, decision making, community participation and financial management.

With respect to IP&R, the principles address the way that councils provide leadership, plan and make decisions about services and resources. The Local Government Act makes it clear that:

- IP&R should be at the centre of all council plans, activities, resourcing decisions, delivery of functions and improvement strategies.

- elected representatives and council staff should work together to ensure that council operations are designed around IP&R and that the IP&R framework is used effectively to deliver each council's strategic goals.

With respect to specific roles related to the IP&R framework:

- the general manager prepares, in consultation with the mayor and other elected councillors, a council's IP&R framework documents for endorsement by council
- a councillor is accountable to the local community for the performance of the council, so councillors must keep the council's performance under review. This is facilitated by delivery program progress reporting by the general manager, quarterly budget reviews, etc.

However, the Local Government Act also establishes support for councillors to perform this role by requiring councils to appoint an audit, risk and improvement committee. These committees are a core requirement of the broader Risk Management and Internal Audit Framework for local councils¹ administered by OLG.

An audit, risk and improvement committee's role is to keep under review various aspects of council's operations, including compliance, risk management and implementation of the delivery program. Further, an audit, risk and improvement committee provides information to the council to help it improve its performance.

Why use the IP&R framework?

Many in the local water utility sector have expressed the view that the IP&R framework should be central to strategic planning for local water utilities for the following reasons:

- Using the IP&R framework can reduce duplication in local water utility strategic planning and reporting by making the development process simpler and eliminating the need to reproduce documents specifically for water and sewerage services when they already exist in the IP&R context.
- The IP&R framework provides a robust framework that all councils must comply with—this should be built upon not duplicated.
- The IP&R framework considers the whole context of each council's business, which can improve the quality of decision making by council staff and elected councillors.
- The accountability of decision making about water and sewerage services can be enhanced as accountability is built into the IP&R framework. Councillors hold their staff to account, and councillors are held accountable to the community through the IP&R framework and the electoral process.

In the context of the outcomes-based approach to strategic planning set out in the regulatory and assurance framework, inputs, systems and processes under the IP&R framework can be used to demonstrate achievement of the department's expected outcomes of local water utility strategic planning.

¹ Opportunities to better integrate the Risk Management and Internal Audit Framework for local councils (as defined in OLG draft guidance) with aspects of the IP&R framework, are identified throughout this document.

Certain inputs and analysis specific to water supply and sewerage strategic planning are not addressed under the IP&R framework and would still need to be generated. This includes, drinking water quality management, drought management, water conservation, developer servicing, liquid trade waste management, environmental management, and technical analyses such as water security, demand, options assessments, etc. These elements of local water utility strategic planning remain reflected as ‘Other councils plans and strategies’, which inform the IP&R process.

Using the IP&R framework in local water utility strategic planning

This section discusses the key principles of how components of the IP&R framework could help demonstrate achievement of the key outcomes for strategic planning contained in the ‘Regulatory and assurance framework for local water utilities’.

Key principles of an integrated approach

The following section provides a summary of the key principles of local water utility strategic planning and how they can be integrated with IP&R framework documents.

Community strategic plan

- Ensure the community strategic plan contains long term objectives on water supply and sewerage services.
- Ensure the community strategic plan prepared by a general-purpose council covers the water supply and sewerage services delivered by a county council.
- Ensure the community strategic plan considers the NSW Water Strategy and any relevant regional water strategies (or other regionally based town water strategies).
- Improve the clarity of the community strategic plan consultation and development processes in relation to water and sewer objectives by drawing on up-to-date information in relevant strategic planning documents, for example:
 - a previous integrated water cycle management strategy or issues paper
 - an asset management strategy and/or water- and sewer-related asset management plans
 - the long-term financial plan.

Community engagement strategy

- Ensure that community engagement for the community strategic plan specifically includes water and sewer issues. For example, use relevant previous water and sewer strategic planning related documents such as an integrated water cycle management strategy or issues paper, or specifically prepared background information to inform engagement by explaining the specific water management issues facing that local community.
- Recognise that strategic issues for local water utilities may need different timelines for water-related consultation due to their complexity or other regulatory requirements.
Element 8 (Community Involvement and Awareness) of the NSW Health Guidelines for Drinking Water Management Systems provides further guidance on water quality related engagement.

- Recognise that, where they exist, county councils are a key partner in engagement. Similarly, county councils should recognise the local water utilities of their constituent councils as key partners when preparing business activity strategic plans.

Delivery program

- Ensure water supply and sewerage services are identified as distinct functions in the delivery program and that there is clear alignment between ‘what we do’ and ‘what it costs’.
- Ensure principal water supply and sewerage service activities are clearly identified at a high level in the delivery program to clarify ‘what council needs to do’ to realise ‘best value’ (the outcomes it aims to deliver) as well as resources to do so. This establishes the framework for further detail to be provided in the operational plan.
- Ensure there is clarity about the proposed revenue path for water supply and sewerage services, including reasons for any changes in charges over and above the Consumer Price Index.
- Under the IP&R Guidelines, the operational plan must be prepared and adopted annually as a separate document to the delivery program. Clearly distinguish the 2 as follows:
 - The delivery program is the big picture (‘outcomes’ focus, ‘where do we want to be?’ what does ‘good value’ look like?). Objectives should be focused on performance reporting that would go in the annual report, such as ‘water supplied complies with Australian Drinking Water Guidelines’.
 - The operational plan is more about delivery of outcomes (‘outputs’ focus, ‘how will we get there?’ what does ‘good performance’ look like?). Objectives should be focused on performance monitoring tracked in progress reports, such as ‘drinking water quality management plan updated/implemented’.
- When defining ‘organisational objectives’ (or ‘outcomes’), consider all aspects of ‘value’ – cost and risk, as well as asset performance (‘levels of service’) – bearing in mind that value needs to be determined by stakeholders (community, customers, regulators, etc.) as well as the local water utility itself (particularly its risk ‘tolerance’).

Resourcing strategy

The resourcing strategy category includes the asset management strategy and plans, long-term financial plan and workforce management plan.

- Recognise that the primary purpose of the asset management planning component is to support decision making by councillors in the delivery program. As such, it is vital that these documents communicate answers to the following questions clearly and simply in relation to water and sewerage services (a summary section might do this specifically):
 - Where are we now?
 - Where do we want to be?
 - How will we get there?
 - How will we know we’re on track?
- Ensure the risk element of the asset management strategy (as per the IP&R Guidelines) defines critical water and sewer ‘risks’ and management strategies, not critical ‘assets’, to

facilitate clear alignment between asset and risk management. For example, water quality is a ‘critical risk’, but actions to manage it involve most assets.

- Undertake an assessment of water and sewerage asset management capability in the asset management strategy to identify improvements against a formal framework (rather than simply listing improvements).
- Ensure the workforce management plan considers the needs of the local water utility in the context of the delivery program for the whole council.
- Ensure that the long-term financial plan considers, as inputs, water and sewerage asset planning, workforce planning, revenue and pricing information to define how the council will fund agreed levels of service, including identifying funding sources.
- In line with the requirements of section 409(3) of the Local Government Act as they relate to the water and sewer fund – that is, that funds levied for a specific purpose may be used only for that purpose – ensure water and sewer funds are not consolidated with the council’s general fund in the long-term financial plan, and that any cost allocations between funds are fair, reasonable, and justified.

Operational plan

- Define water and sewer objectives in a way that supports performance monitoring and aligns with monitoring of risk treatments defined under the risk management framework so council has assurance it will achieve its objectives in the delivery program. For example, develop and implement a drinking water quality management plan to provide assurance that water supplied complies with Australian Drinking Water Guidelines.
- Define water and sewer activities (programs, projects and activities) in the operational plan within each principal activity in the delivery program to facilitate budgeting and performance monitoring.
- Express any underfunding of water and sewer capital renewal and/or maintenance activities on a risk basis. For example, document the cost to bring risks assessed under council’s risk management framework as ‘unacceptable’ down to ‘acceptable’ level. This assessment should be used to inform council’s performance reporting on infrastructure assets in its annual financial statements and be included in the remit of the audit, risk and improvement committee.
- Review assumptions informing pricing for water and sewerage services (which are set in the revenue policy) as part of the mandatory annual review of the long-term financial plan for water and sewer businesses. This includes assumptions about operational revenues and expenses as well as capital works. Also include a brief explanation of any changes to the revenue path in the revenue policy.

Other plans

- Incorporate other local water utility strategic planning inputs and analysis as ‘other strategies’ in the IP&R framework. This includes drinking water quality management, drought management, water conservation, developer servicing, liquid trade waste management, and environmental management.

- Ensure the interconnections between these ‘other strategies’ are clarified, as well as the interconnections between these and IP&R framework documents. Include the appropriate triggers for review and engagement.

Reporting

- Use the operational plan as the reference against which to undertake mandatory 6-monthly (minimum) progress reporting to the elected council on water and sewerage services in order to differentiate performance monitoring (‘are we on track?’) from performance reporting (‘did we end up where we wanted to be?’). Council will still report at a higher level against ‘outcomes’ in the delivery program in the annual report, but the purpose of progress reporting is to provide confidence these outcomes will be achieved.
- Integrate this performance monitoring and reporting for water and sewerage services with monitoring and reporting under the risk management framework – in particular, reporting to the audit, risk and improvement committee – and the annual reporting required in the ‘Regulatory and assurance framework for local water utilities’.

Aligning the IP&R framework with key outcomes

Using the IP&R framework for local water utility strategic planning is optional. Local water utilities may choose to use the IP&R framework to address some or all of the regulatory and assurance framework strategic planning outcomes.

There isn’t a one-to-one relationship between the elements of IP&R and the regulatory and assurance framework’s strategic planning outcomes. One way to understand how to relate them is with reference to the strategic planning questions in shown in Figure 2:

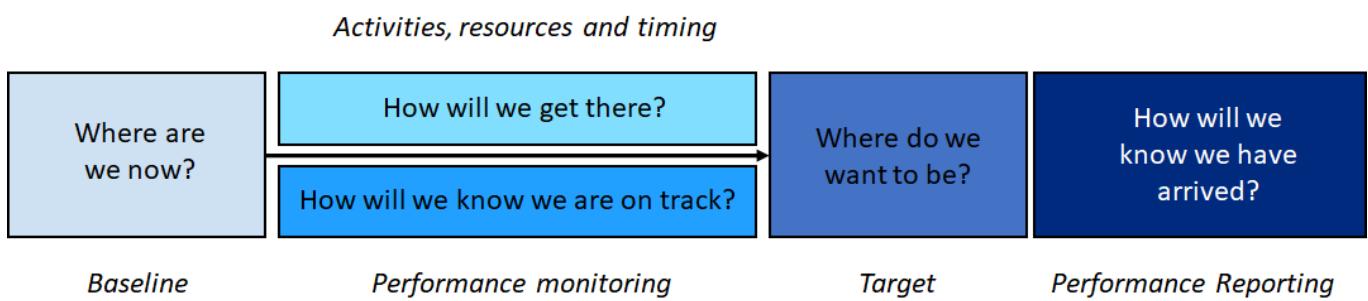
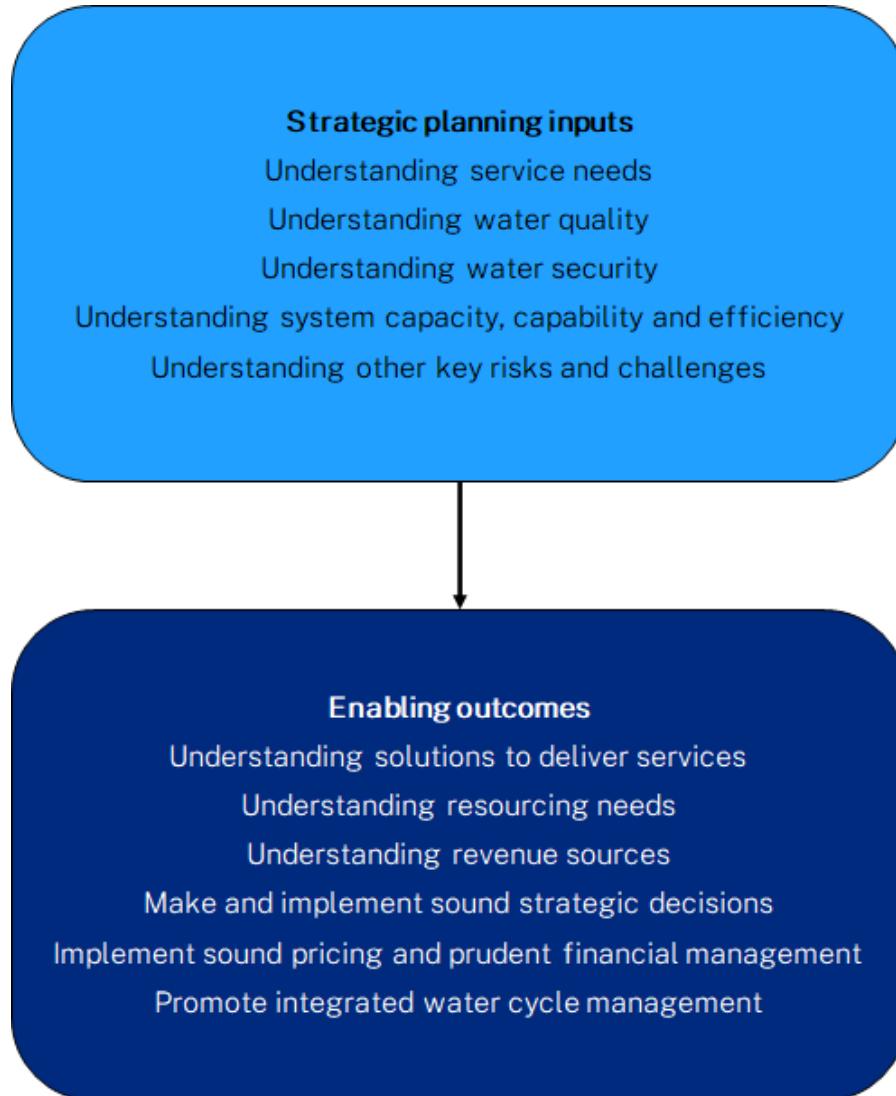


Figure 2. Relating the IP&R and the regulatory and assurance framework’s strategic planning outcomes.

The main IP&R documents (community strategic plan, delivery program, etc.) generally address all these questions within the one document.

However, the regulatory and assurance framework strategic planning outcomes are best understood in terms of 2 sets of outcomes, each of which is only asking and answering some of these questions. This is described in more detail in Figure 3, Table 1 and Table 2.



Outcomes related to developing the information necessary to answer:

- Where are we now? (Baseline), and
- Where do we want to be? (Target).

Outcomes related to informing strategic planning decision-making and implementation, to answer:

- How will we get there? (Activities, resources to undertake these and timing)
- How will we know we are on track? (Performance monitoring), and
- How will we know when we have arrived? (Performance reporting).

Figure 3. Categories of strategic planning outcomes and related key questions

Table 1. Regulatory outcomes and relevant IP&R framework components – Strategic planning inputs

Outcome	Description	Relevant IP&R framework components
1. Understanding service needs	<ul style="list-style-type: none"> • What are customers' needs, values, and preferences? • What current and future demands are placed on water supply and sewerage systems? • How will the local water utility consider and address objectives, priorities and evidence of other relevant state or regional strategic planning, including the NSW Water Strategy and regional water strategies? <p>Note. The utility's approach to establishing service levels is considered in outcome 10.</p>	<ul style="list-style-type: none"> • Specific consultation relating to water and sewer services undertaken in IP&R in accordance with community engagement strategy • Community strategic plan to identify broad/basic objectives for water and sewerage services • Delivery program and operational plan to identify specific water and sewer service objectives (i.e., this should not just be in the asset management plans), with performance monitored and reported against these in progress reports and then the annual report • Include a 'customer service' function in delivery program/operational plan that specifies water and sewer customer service levels • Consider state plans and strategies (e.g. NSW Water Strategy, regional water strategies, as well as land-use plans and strategies, etc), and any relevant regional town water strategies • Additional information could be provided in a whole-of-council 'customer service policy/charter/strategy/plan' (under 'other strategies') including specific requirements for urban water services <p>Note. Some future demand inputs will be broader than IP&R framework (e.g. regional water strategy data, land use planning data, etc).</p>
2. Understanding water security	<ul style="list-style-type: none"> • What is the local water utility's access to current and potential water supply sources? • How will the local water utility address current and future risks around continuity and reliability of access to water supply sources? 	<ul style="list-style-type: none"> • Community strategic plan to identify significant water security issues and strategies to address these questions, including those identified in regional water strategies • Understanding water security identified as a key strategic driver, critical risk and/or improvement action in asset management planning documents • Actions to better understand water security identified in the delivery program and/or operational plan (e.g. prepare study/plan/strategy), and actions to improve and/or assure security identified (e.g. implement drought plan) • Drought management – stand-alone 'water conservation and drought management plan' under 'other strategies', monitored via the delivery program and operational plan <p>Note. Inputs will be broader than IP&R framework (e.g. regional water strategy data, secure yield data, etc).</p>

Outcome	Description	Relevant IP&R framework components
3. Understanding water quality	<ul style="list-style-type: none"> How will the local water utility address current and future water quality risks in its supply systems? How will the local water utility meet relevant regulatory standards, such as on drinking water quality management? 	<ul style="list-style-type: none"> Drinking water quality – stand-alone document (under NSW Health Drinking Water Quality planning framework) under ‘other strategies’, with monitoring, reporting, review managed via the delivery program and operational plan Asset management strategy – water quality identified as a critical risk, with corresponding management strategies identified (e.g. prepare drinking water quality management plan)
4. Understanding environmental impacts	<ul style="list-style-type: none"> How will the local water utility address current and future environmental impact risks in its sewerage systems? How will the local water utility meet relevant regulatory standards, such as licence requirements set by the environmental regulator? 	<ul style="list-style-type: none"> Environmental management – delivery program and operational plan should outline risk ‘functions’ at a whole-of-council level but with specific objectives for urban water functions, including pollution incident response management plans and recycled water management plans Asset management planning documents to identify environmental impacts as a critical risk and have corresponding management strategies (and potentially improvement actions/projects)
5. Understanding system capacity, capability and efficiency	<ul style="list-style-type: none"> What is the capacity and capability of systems to deliver water (and future capacity and capability needs)? What is the capacity and capability of its systems to collect and treat sewerage (and future capacity and capability needs)? How will the local water utility consider water efficiency in its systems? 	<ul style="list-style-type: none"> Community strategic plan to identify significant capacity issues potentially impacting water and sewer services and strategies to address these Asset management planning documents to identify water and sewer system capacity/efficiency issues as a strategic driver, critical risk and/or improvement action Delivery program and/or operational plan to include monitoring and reporting on capacity and efficiency as appropriate (e.g. an under-performing treatment plant, need for water restrictions) and actions to improve it (e.g. prepare study/plan/strategy)

Outcome	Description	Relevant IP&R framework components
6. Understanding other key risks and challenges	<ul style="list-style-type: none"> • How will the local water utility address other key risks in its systems now and into the future? • How will the local water utility meet relevant regulatory standards (for example, dam safety)? • How has the local water utility considered climate risks? • How is the local water utility planning for drought? • How is the local water utility planning and preparing for incidents, emergencies, and extreme events and ensuring continuity of service? 	<ul style="list-style-type: none"> • Community strategic plan to highlight key water utility risks and challenges, and strategies to address these • Asset management planning documents to identify critical risks and management strategies • Delivery program (potentially) and operational plan (particularly) to define performance measures and monitoring for key risks, which should be aligned with the risk management framework (kept under review by the audit, risk and improvement committee) • Risk register (within the Local Government Risk Management Framework) should be the repository for information on all risks. • Long-term financial plan to identify key risks and challenges from a financial perspective (e.g. impact of reducing water usage on revenues) • Workforce management strategy to include specific risks to specialised water and sewer functions (e.g. inability to attract/retain/train qualified operators/staff)

Table 2. Regulatory outcomes and relevant IP&R framework components – Enabling outputs

Outcome	Description	Relevant IP&R framework components
7. Understanding solutions to deliver services	<ul style="list-style-type: none"> • How are options for delivering services and managing risks analysed? • How are supply- and demand-side options for water supply identified and evaluated? • How are assets managed over their life cycle to ensure service levels are met? • How are preparedness and resilience management during extreme events considered? 	<ul style="list-style-type: none"> • Community strategic plan might identify a solution (e.g. new dam for water security) as an objective together with strategies to realise this • Asset management planning documents establish strategic context and potentially the approach to developing solutions (which may be included in key actions/ improvements) as well as programs to manage assets over their lifecycle • Delivery program identifies actions to develop solutions (which may involve production of specific studies/plans/strategies) as well as principal activities to perform water and sewer functions (all lifecycle activities) and achieve objectives • Alignment with and integration of risk management framework with activities under IP&R provides further assurance service levels will be met
8. Understanding resourcing needs	<ul style="list-style-type: none"> • What resourcing is needed to deliver services and manage risks? • What are the life-cycle costs of managing assets? • What are the technical and operational skills needed to deliver services and manage risks? • How does the local water utility do workforce planning? 	<ul style="list-style-type: none"> • Specific consultation in accordance with the community engagement strategy about water and sewer service priorities and willingness to pay for these • Resourcing strategy identifies resources required to achieve council's objectives (financial, asset and workforce) in relation to water and sewer services and risks associated with these • Delivery program and operational plan are the means by which council allocates those resources and establishes performance monitoring and measurement, and reports on performance (services delivered, management of risks)
9. Understanding revenue sources	<ul style="list-style-type: none"> • What revenue sources are available to fund delivery of services? • What is the customers' ability to pay for services? • What is the customers' willingness to pay for services? 	<ul style="list-style-type: none"> • Community strategic plan may identify strategic water and sewer issues with the community's ability and/or willingness to pay for services • Revenue sources available to fund the delivery of water and sewer services are identified in the long-term financial plan, delivery program and operational plan • Ability and willingness to pay and compliance with best practice pricing are considered as part of the pricing methodology defined in the revenue policy in the operational plan

Outcome	Description	Relevant IP&R framework components
10. Make and implement sound strategic decisions	<ul style="list-style-type: none"> Based on its understanding of and adequate consideration of service needs, risks, and resources, how does the utility set service levels and efficient revenue requirements over an adequate forward period to capture asset lifecycle? How are customers engaged in decision making and informed of choices between service levels, risks, and cost? How does the local water utility ensure its long-term financial sustainability, including managing unexpected financial shocks, without having to introduce substantial or socially destabilising revenue or expenditure adjustments? How does the utility implement service levels and monitor and report on performance to understand if it is meeting service levels and managing risks? 	<ul style="list-style-type: none"> Community engagement strategy will guide engagement activities regarding strategic decisions proposed to be made/under consideration for water and sewer services Community strategic plan should identify well run authority/council as an objective Delivery program and operational plan define water and sewer service levels – informed by asset management planning documents and ‘operational working documents’ supporting formal asset documents – and establish robust measures to monitor and report on performance Revenue policy includes pricing methodology – any changes to the revenue path should be explicit and supported by reasons for the change Long-term financial plan defines the revenue path, which is implemented via the financial forecasts in the delivery program and the annual budget and revenue policy in the operational plan, by analysing the financial sustainability of water and sewer businesses based on assumed operational revenues/expenses as well as future capital works (informed by asset plans) and current financial position All financial planning and reporting documents should specifically distinguish general fund from water and sewer funds – transfers between funds should be specifically identified (in line with section 409(3) of the Local Government Act)

Outcome	Description	Relevant IP&R framework components
11. Implement sound pricing and prudent financial management	<ul style="list-style-type: none"> How does the utility set and structure its water supply and sewerage pricing to recover its revenue requirement, promote efficient use of water, and achieve equitable and affordable pricing and intergenerational equity? How does the utility implement a cost-reflective and consumption-based tariff structure, long-term stable price path and intergenerational equity? How does the utility set appropriate developer charges to recover the infrastructure cost of servicing growth? How does the utility consider payment of tax equivalents and dividends? How does the utility consider affordable access to essential water services for all customers? How does the utility ‘ring-fence’ the water supply and sewer business fund from council’s general-purpose fund? 	<ul style="list-style-type: none"> Community engagement strategy will guide engagement activities regarding the need for increased charges (for example) and inform the community about financial challenges faced by the authority Community strategic plan should identify financially sustainable public authorities (councils, water utilities) as well as affordable water and sewerage services and intergenerational equity as objectives Long-term financial plan should define the long-term price path and establish financial objectives/forecast performance against these Delivery program must (under IP&R guidelines) identify actions to improve financial management Operational plan includes the revenue policy, which is how authorities set their prices – includes pricing methodology, ideally should include explanation for change in prices above CPI and/or this may be communicated in the delivery program Fees and charges (in operational plan) identify normal service charges, developer contributions and specific charges for other items, e.g. upgrade service size Statement in special-purpose financial statements by councillors/staff that overhead reallocation to water and sewer from general fund is fair and reasonable

Outcome	Description	Relevant IP&R framework components
<p>12. Promote integrated water cycle management</p> <p>Note. The purpose of this outcome is to identify broader urban water cycle management outcomes beyond supplying water and collecting and discharging sewage.</p>	<ul style="list-style-type: none"> How are urban water cycle outcomes, including water security, public health, environmental and urban amenity and liveability identified, achieved and funded? How does the utility consider opportunities and methods to increase resource efficiency and recovery in urban water management? How is the local water utility helping customers increase water literacy and support water efficiency measures? 	<ul style="list-style-type: none"> Community strategic plan identifies priorities, aspirations and objectives of the local community, including those noted to left, as well as strategies to achieve these outcomes Resourcing strategy identifies the funding and other resources required to achieve these outcomes, including what the local water utility can contribute and if the utility is being funded from the council's general fund for doing so Delivery program details the principal activities to be undertaken in relation to broader urban water cycle management outcomes beyond supplying water and collecting and discharging sewerage, together with measures to evaluate the effectiveness of these activities and resources required to undertake them Operational plan identifies activities to achieve those outcomes, objectives to provide assurance they will be achieved and further details regarding the resources required to achieve them

Figure 4 provides an overview of the key linkages between local water utility strategic planning and the IP&R framework and should be considered alongside Table 1, Table 2 and Figure 3 above.

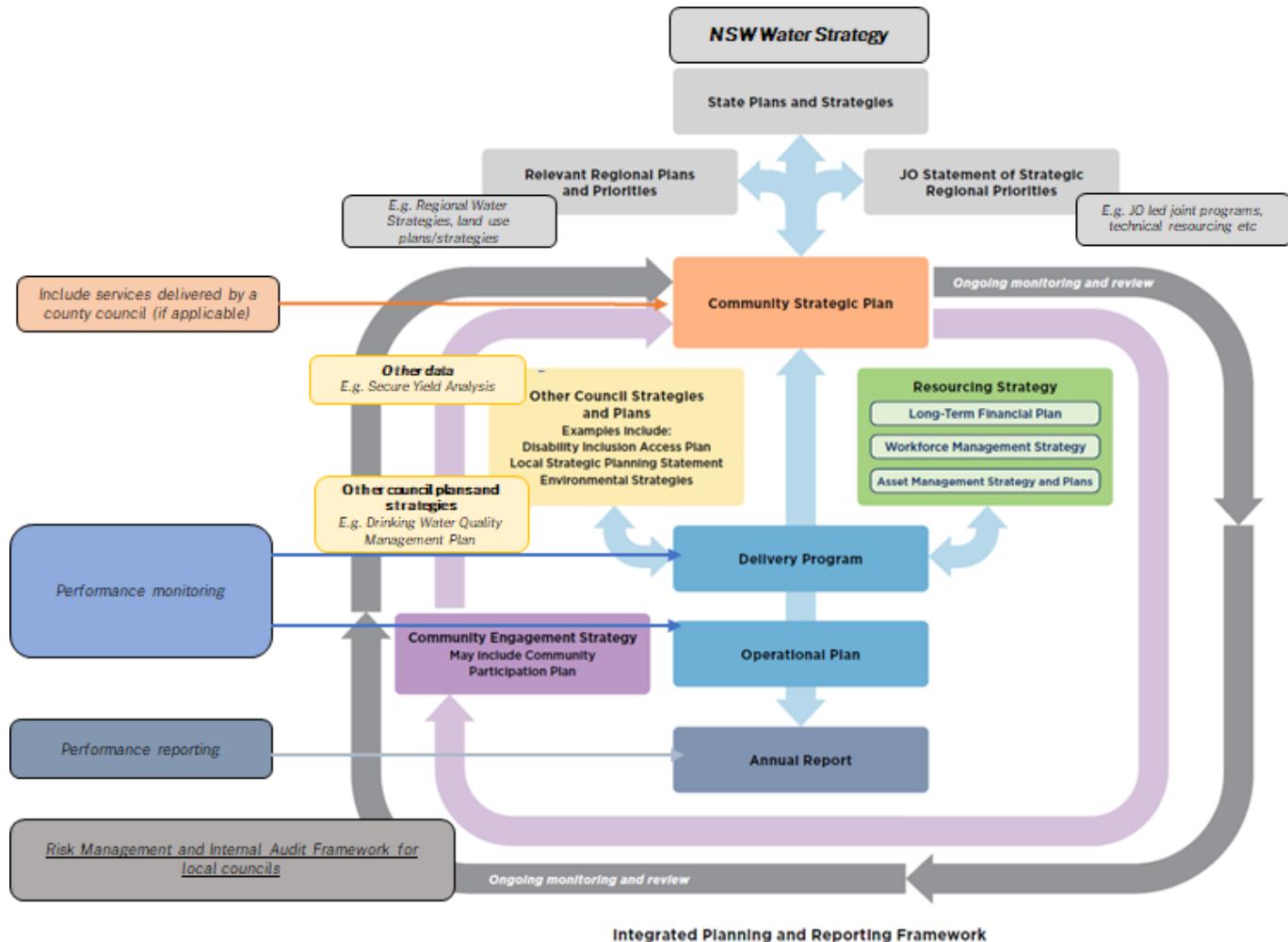


Figure 4. Key linkages between local water utility strategic planning and the IP&R framework²

² Adapted from OLG IP&R guidelines

Next steps

Express your interest in an integration pilot

The department is inviting councils considering integrating their local water utility strategic planning with the IP&R framework to express their interest to participate in an integration pilot over the next cycle of IP&R (July 2022 to June 2025). We will use this process to inform definitive good-practice case studies and guidance for other councils wanting to take this approach. The pilots will also inform our regulatory and assurance role and advisory and support role with respect to strategic planning for local water utilities.

In the first instance, councils considering integrating local water utility strategic planning with the IP&R framework should consider this guidance and the OLG's [IP&R guidelines \(PDF 862 KB\)](#) and [handbook \(PDF 8.7 MB\)](#). It is essential that commitment to participate in a pilot be obtained from both local water utility management and council corporate planning staff. Both will need to be onboard for successful implementation.

Councils interested in participating in an integration pilot should contact the Town Water Risk Reduction Program for further information at: regional.town.water@dpie.nsw.gov.au.

Overview of the integration pilot

As outlined in the 'Regulatory and assurance framework for local water utilities', within our regulatory and assurance role, we will ensure that local water utilities can undertake planning in a way that will meet the outcomes we set.

Successful integration of local water utility strategic planning and the IP&R framework will require a considered approach from councils and the department. Additionally, some councils may have greater capacity than others to integrate their local water utility strategic planning with IP&R.

Building on the information contained in the 'Key principles of an integrated approach' section of this document, the pilots will explore and seek answers to the following questions:

- What key long-term objectives should a council have for water supply and/or sewerage services in its community strategic plan?
- What key water supply and sewerage service activities should be incorporated in a council's development plan?
- What key water- and sewerage-related asset management objectives and activities should be addressed in asset management strategies and plans to reduce risk?
- How are the unique long-term financial planning needs of water- and sewerage-related assets and activities addressed under the long-term financial plan (ie. where a longer horizon than the 10-year period of the long-term financial plan is considered necessary)?

- What water and sewerage related needs/expectations for the local water utility's workforce should be addressed in a council's workforce management plan?
- How can local water utility performance reporting and monitoring be enhanced in the context of the IP&R framework to improve strategic planning outcomes and councillor and staff decision making?

Additionally, Table 3 sets out the key issues, opportunities and potential approaches to implementation which we will consider over the course of the pilot process.

Table 3. Future implementation issues, opportunities and potential approaches

Implementation focus area	Implementation issues, opportunities and potential approaches
Building understanding and expertise of council staff	<ul style="list-style-type: none"> • Through the pilots, the department will develop final guidance and support materials for councils
Fostering collaboration between relevant council staff	<ul style="list-style-type: none"> • A critical focus will be helping local water utility staff work more closely and effectively with council IP&R staff to ensure better integration of local water utility planning in the broader council IP&R framework • There is also an opportunity to enhance sector understanding via existing industry-led support (e.g. NSW Water Directorate, Local Government Professionals Integrated Planners forum and LGNSW training)
Building understanding within the department's Water group of IP&R's role within an outcome-focussed regulation approach	<ul style="list-style-type: none"> • Support will be needed for cultural change within the department's Water group to help shift from the existing regulatory approach and build the understanding and expertise of key regulatory staff in the detail of the IP&R framework • There is also potential for the department's Water group to consider how it might support other innovative approaches to strategic planning to drive continuous improvement in the sector
Building understanding of councillors	<ul style="list-style-type: none"> • Building on the work commenced under the Town Water Risk Reduction Program to improve water literacy amongst elected councillors, there is an opportunity to further improve their understanding in relation to strategic water planning and the role of IP&R • This would also allow councillors to build a deeper understanding of the level of monitoring and oversight needed for their water utility businesses (especially in the context of these being service providers to communities)
Building the understanding of audit, risk and improvement committees	<ul style="list-style-type: none"> • The department and OLG will continue to work together to help councils improve how the <u>Risk Management and Internal Audit Framework for local councils</u> could support the strategic planning and operations of local water utilities. Audit, risk and improvement committees will need guidance and support to build understanding and ensure that focus is given to the highest priority areas of water utility business • The improved use of audit, risk and improvement committees could also inform the department's regulatory assurance process in terms of ensuring local water utilities are undertaking robust strategic planning

Implementation focus area	Implementation issues, opportunities and potential approaches
Opportunities to explore an embedment model of support and development	<ul style="list-style-type: none"> Some councils have suggested that an embedded model of support should be considered to build expertise within councils and the NSW Government (e.g. government staff working within councils or water alliances/joint organisations to drive strategic planning)
Opportunities to explore potential regional approaches to IP&R	<ul style="list-style-type: none"> Opportunities exist to optimise strategic planning outcomes for councils and the state through regional approaches, either through joint organisations or other regional groupings of councils The involvement of Regional Water Strategies Team within the department's Water group and other agencies and bodies (e.g. WaterNSW) will be critical to ensuring the success of such an approach

The pilot process

We will be seeking expressions of interest in participating in the pilot process until 31 August 2022.

We will contact councils that have expressed interest by 30 September 2022 and agree on a scope and timeframe for their pilot.

Each pilot will be overseen by a steering group comprising representatives from the participating council/s and from relevant departmental teams.

A small amount of discretionary funding may be available to pilots.

The pilot process will draw on advice from an overarching advisory group comprising relevant departmental representatives and key stakeholders including the Office of Local Government, NSW Health Water Unit, Environment Protection Authority, Local Government NSW, the Water Directorate, and the Local Government Professionals Australia NSW – Integrated Planners Members Network.

We will provide additional guidance, including good practice resources, throughout the pilot process.