

Department of Planning and Environment

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# Quality assurance framework for the department's regulation and assurance of local water utilities

November 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 department has implemented a new risk-based approach to regulating local water utilities. To be successful, the department will need targeted and robust quality assurance of its performance in the regulatory role.

Internal and external stakeholders will need assurance that changes to our approach to regulating local water utilities are leading to improved outcomes for utilities and communities. Taking a transparent approach to quality assurance using internally and externally focused metrics will encourage accountability, procedural fairness, accessibility, and responsiveness.

The department will also benefit from a sound approach to quality assurance. It will help lift our regulatory performance and capability and drive a culture of excellence.

However, implementing an effective quality assurance framework can be challenging, particularly in the context of a simultaneous transition to a new regulatory model.

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## Objectives of a quality assurance framework

Regulators across the world apply different principles and frameworks to approach the task of quality assurance when assessing their regulatory performance. Individual regulators tailor their quality assurance approach based on their context, objectives, and regulatory approach. While these frameworks differ from regulator to regulator, they draw on common standards (for example, Australian Standard 9001, as used by Dams Safety NSW). They also commonly consider both the internal (operational) performance and external (regulatory) impact of the regulator's activities.

Ultimately, an effective approach to quality assurance must allow the department to demonstrate that it is achieving the vision and objectives defined in the regulatory and assurance framework. It also needs to help us show that we can satisfactorily address the risks that the regulatory and assurance framework seeks to manage.

We need a quality assurance framework that balances 2 objectives:

- ensuring the department is managing the key risks flagged in the regulatory and assurance framework and its work with local water utilities.
- helping leaders within the department to understand how the department is performing as a regulator and ensuring resources are being allocated efficiently and effectively.

The quality assurance framework, and the underlying focus areas and metrics selected for monitoring, should help us consider the following questions:

- Are we having the right impacts on the right stakeholders?
- Do we have the right skills/capabilities?
- Do we know what our processes are?
- Are we allocating effort the right way?

- Are our decisions being challenged too often?
- Are we reviewing our own performance?

## Insights from best-practice approaches to quality assurance

Our quality assurance framework is based on best-practice examples drawn from relevant Australian and international sources and tailored to our specific regulatory context. The best-practice examples used as a foundation for this quality assurance framework, listed below, identify measures relating to internal (operational) performance as well as the external (regulatory and assurance, as well as advisory and support) impact of the department’s activities. The external and internal measures will be used together to inform the department’s understanding of quality assurance.

This quality assurance framework applies to all functions outlined in the overarching regulatory and assurance framework, ranging from legislated regulatory functions to our role in providing assurance related to strategic planning conducted by local water utilities.

Table 1. Internal and external quality assurance

Quality assurance considerations	Explanation
<b>Internal quality assurance</b>	<ul style="list-style-type: none"> <li>• The department can monitor the performance of its internal regulatory and assurance functions to provide assurance to itself and stakeholders that it is adequately delivering on the objectives outlined in the regulatory and assurance framework. It can assess performance using a variety of metrics that draw on evidence from within, as well as from stakeholders.</li> <li>• Internal quality assurance aims to help the department measure accountability processes that foster a culture of continuous improvement and reflection – such as holding rigorous ex-post reviews of regulatory actions to identify learnings and explore opportunities for improvement, and regular reviews of operating procedures.</li> </ul>
<b>External quality assurance</b>	<ul style="list-style-type: none"> <li>• The department can measure the impact of its work by considering a variety of externally focused factors. Monitoring these external factors allows the department to assess whether its work is achieving intended outcomes, and utilities are receiving the support they require.</li> </ul>

The specific best-practice examples drawn on are:

- Australian Standard (AS) ISO 9001:2016 Quality Management Systems
- OECD Best Practice Principles for the Governance of Regulators
- Australian Government Regulator Performance Guide

Best practice regulatory guidance suggests that the department can best understand its external regulatory performance by considering factors including:

- whether its regulatory objectives are clearly published and are understood

- the quality of engagement with regulated parties (i.e. strength of its regulatory relationships)
- the level of proactive compliance by regulated parties
- if performance targets have been set, whether they have been met.

The OECD Best Practice Principles for the Governance of Regulators highlights a selection of factors that could be used to support external quality assurance. These include:

- accountability and transparency
- decision-making structure
- performance monitoring
- role clarity
- collaboration and stakeholder engagement.

Similarly, the Australian Government Regulator Performance Guide identifies a further 3 potential factors that might be considered to support external quality assurance:

- continuous improvement and building trust
- assurance that is risk-based and data driven
- collaboration and engagement.

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## Selecting focus areas and performance measures

Implementing a quality assurance framework, particularly in the context of simultaneous implementation of a new regulatory and assurance framework and approach, presents challenges to staff. It is important that, initially, the quality assurance framework seeks to monitor how the implementation of the new regulatory and assurance framework is progressing. It is critical to ensure that the transition to a new quality assurance approach is managed in a way that allows staff to adapt to and understand what we are seeking to monitor, and why.

A key theme drawn from best-practice materials indicates that long-term success is founded on a staged approach to implementing a quality assurance framework.

We have identified a small number of metrics to be monitored initially, and a larger suite of metrics that could be tracked in the longer term once the quality assurance approach is appropriately embedded. This allows us to monitor a small number of internal and external metrics to begin with, before expanding to include additional measures to support quality assurance activities at a later point. In general, we intend to monitor metrics at least annually, however for some metrics it may be more frequent.

Expanding our quality assurance framework to include additional focus areas should happen over time and be informed by our performance and feedback and input from internal and external stakeholders. We intend to collaborate with the local water utility sector when expanding the quality assurance framework. Our ability to effectively measure performance of existing measures should also be considered before any potential expansion of scope.

# Internal quality assurance measures

To support the successful implementation of the new regulatory and assurance framework, we need to ensure we monitor and track our own performance. Ensuring we are continually reviewing our performance will support implementation, build trust with the utilities and broader sector, and ensure our regulatory and assurance framework and engagement with the sector meets the requirements and expectations of local utilities. In general, we intend to monitor metrics at least annually, however for some metrics it may be more frequent.

Internal quality assurance measures are used to track and measure our regulatory performance. Best practice (including internationally recognised standard AS ISO 9001:2016) identifies 7 potential focus areas that can be used to support internal quality assurance. The focus areas that we might consider measuring are defined in Table 2.

All insights collected as part of tracking these internal quality assurance measures should be used to inform continuous improvement of our internal and external facing work to deliver against the regulatory and assurance framework.

Table 2. Internal quality assurance focus areas outlined in AS ISO 9001:2016

Potential focus areas	Definition
<b>Context</b>	The department understands and takes into consideration internal and external factors needed to support its regulatory and assurance functions. Departmental staff demonstrate clarity of understanding and transparency in their implementation of the regulatory and assurance framework.
<b>Leadership</b>	Leaders across all levels of the department are committed to the success of the regulatory and assurance framework. They demonstrate their commitment by providing sufficient resources and clearly communicating roles, responsibilities, and authorities.
<b>Planning</b>	The department has in place a clear plan on how to address its risk and opportunities related to its regulatory and assurance functions.
<b>Support</b>	The department ensures sufficient resources are allocated to deliver its regulatory objectives and carefully monitor their use and effectiveness
<b>Operations</b>	The department has in place processes and documentation to support the department in the implementation of the regulatory and assurance framework and guide performance of its regulatory objectives.
<b>Performance evaluation</b>	The department has in place a process, systems and the capability to assess its performance against the objectives defined in the regulatory and assurance framework.
<b>Improvement</b>	The department is committed to continuous improvement, including managing non-conformities, solving problems, error-proofing, and taking corrective action when required.

Our approach to quality assurance will eventually incorporate monitoring of metrics that allow for tracking of performance against each of the above focus areas. However, given the complexity associated with implementing a new regulatory and assurance framework, we will initially select 3 internal quality assurance focus areas. This approach will simplify and streamline the process of upskilling staff and minimising the resourcing burden. Our initial areas of focus are:

- context
- leadership
- support.

The rationale for focusing on each of these is explored below, along with some initial measurements that will be used to effectively track performance without imposing overly burdensome administrative effort.

The department should also consider future monitoring arrangements for the remaining focus areas identified in Table 2 (Planning, Operations and Performance Evaluation). These focus areas were identified as future-state considerations as they relate to longer-term implementation of the quality assurance framework and will be difficult to measure immediately. Over time, we expect our approach to quality assurance of the regulatory and assurance framework will involve regular monitoring or all of the focus areas listed in Table 2. We will work with internal and external stakeholders to guide decisions on how monitoring of additional focus areas should be sequenced and implemented.

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## Context

In seeking to provide assurance to departmental executives and stakeholders, we must understand whether staff responsible for administering the new regulatory and assurance framework understand what the revised approach is aiming to achieve, and how it seeks to do so.

Table 3. Internal quality assurance focus area – context

Indicator of regulatory performance	Measurement
<p><b>Internal understanding</b> Staff and leadership clearly understand the department’s regulatory role and approach, and understand their role in implementation and administration</p>	<ul style="list-style-type: none"> <li>• Completion rates by staff for training focused on the regulatory and assurance framework, its implementation and how to use it in practice (measured annually).</li> <li>• Regular (at least annually) staff pulse survey to measure the depth of understanding and application of the regulatory and assurance framework by staff. This should then influence the agenda of team and executive meetings.</li> </ul>
<p><b>Alignment with vision</b> The department’s regulatory activities are aligned with sector vision and objectives, as outlined in the new regulatory and assurance framework</p>	<ul style="list-style-type: none"> <li>• Qualitative assessment undertaken by department and published– reconciliation of activities proposed/undertaken with vision and objectives, including contribution to meeting vision/objectives (measured annually).</li> <li>• Assessment of the alignment between intent and implementation, with a discussion of this across teams and peer to peer (measured annually).</li> </ul>



## Leadership

Our staff will require a clear and continual demonstration of direction and commitment from internal leadership regarding the implementation of the new regulatory and assurance framework and quality assurance approach. Consequently, the quality assurance framework should include metrics that can be used to identify strengths and opportunities within the executive’s approach to leadership.

Table 4. Internal quality assurance focus area – leadership

Indicator of regulatory performance	Measurement (measured annually)
<p><b>Clarity of roles</b></p> <p>Roles and responsibilities are clearly identified and allocated, and required activities are understood by staff responsible for execution</p>	<ul style="list-style-type: none"> <li>• Each aspect of the regulatory process is defined, with a clear description of what success looks like for each job and role.</li> <li>• Responsibility for each activity is allocated and monitored in line with those clear role descriptions.</li> <li>• Management and leaders have clear decision-making responsibilities and exercise these in a timely manner.</li> </ul>
<p><b>A common understanding of success</b></p> <p>There is a clear articulation of what success looks like, and leadership are aligned in communicating this to staff and stakeholders</p>	<ul style="list-style-type: none"> <li>• There is guidance and communication from leadership on what ‘good’ looks like in terms of decision making and the allocation of effort.</li> <li>• There is a risk framework available that is updated regularly.</li> <li>• There is documentation on assigned roles and responsibilities.</li> </ul>
<p><b>Allocation of resources</b></p> <p>Resources and effort are managed effectively, in a manner consistent with the department’s risk-based and outcomes-focused approach</p>	<ul style="list-style-type: none"> <li>• Effort is allocated in advance, drawing on an agreed resourcing mechanisms.</li> <li>• Resources are allocated based on capacity and risk.</li> <li>• There is oversight of the effort being invested by staff, and resources are surged to support teams that need assistance.</li> </ul>

## Support

Our staff will need to be appropriately supported to ensure that the new regulatory approach is successfully implemented and executed.

The provision of appropriate guidance materials is one key area of focus. In particular, we will consider whether materials give staff a clear sense of what is expected of them and equips them to make risk-based decisions in a consistent and collaborative manner.

Additionally, we will consider measuring whether the way we are allocating resources and effort is successful in achieving the vision and objectives outlined in the new regulatory and assurance framework.

Table 5. Internal quality assurance focus area – support

Indicator of regulatory performance	Measurement (measured annually)
<p><b>Consistency of understanding</b></p> <p>There is a clear understanding of how work should be conducted that is consistent across leaders, managers and teams</p>	<ul style="list-style-type: none"> <li>• Availability of guidance materials.</li> <li>• Contemporaneity of guidance materials – i.e. have they been updated within specified timeframes.</li> <li>• Regular (at least annually) staff pulse survey to measure the depth of understanding and application of the regulatory and assurance framework, and the advisory and support role, by staff. this should then influence the agenda of team and executive meetings.</li> </ul>
<p><b>Risk identification and management</b></p> <p>Leaders scan for potential challenges and work to manage them. Staff feed insights and intelligence to leaders to support early identification of risks and challenges.</p>	<ul style="list-style-type: none"> <li>• A monitoring approach for risks and challenges to delivery (including demand, skills, capability, etc.) established and implemented.</li> <li>• Issues identified based on monitoring, and response plans are developed within a reasonable time frame.</li> <li>• Insights from the monitoring approach inform discussions at team and executive meetings.</li> </ul>
<p><b>Capability uplift and resourcing</b></p> <p>Training, development, and recruitment are directed at identified skill and capacity gaps</p>	<ul style="list-style-type: none"> <li>• People are supported with ongoing training tailored to needs, with focused effort directed to support teams where skills gaps are identified.</li> <li>• Teams are developed and resources are obtained to address issues that cannot be managed through training.</li> </ul>

# External quality assurance measures

In addition to measuring our own performance, we must also measure the external impact of the new regulatory and assurance framework to ensure it is achieving its intended outcomes and utilities are receiving the support they need. We can also use externally focused measures of quality assurance to track and assess regulatory performance in relation to the local water utilities sector.

Best practice (OECD Best Practice Principles for the Governance of Regulators) identifies several potential focus areas that can be used to assess external regulatory performance, 5 of which are directly relevant to the department. Additionally, the Australian Government Regulator Performance Guide identifies a further 3 potential areas. Table 6 presents an integrated list of focus areas developed from these best-practice examples that we will focus on.

All insights collected as part of tracking these external quality assurance measures should be used to inform the continuous improvement of our internal- and external-facing work to deliver against the regulatory and assurance framework.

Table 6. Selected external quality assurance focus areas

Potential focus areas	Definition
<b>Accountability and transparency</b>	The department can demonstrate that it is both accountable and transparent in its regulatory and advisory roles. It can also demonstrate both impartiality and the perception of impartiality.
<b>Decision-making structure</b>	The department should be able to demonstrate that internal processes and governance arrangements support regulatory integrity and transparent decision-making. Decision-making should be consistent with the regulatory and assurance framework.
<b>Performance monitoring</b>	The department can demonstrate that it is aware of the impacts of its regulatory actions and decisions, helping drive improvements and enhance systems and processes internally.
<b>Role clarity</b>	The department should be able to clearly articulate and demarcate its regulatory roles. Objectives and activities should be clearly distinct from the remit of other regulators. The department should be empowered to co-operate and co-ordinate with other bodies in a transparent manner.
<b>Collaboration and stakeholder engagement</b>	<p>The department should be able to clearly demonstrate that it is collaborating and engaging effectively with stakeholders as part of achieving the objectives outlined in the new regulatory and assurance framework.</p> <p>The department can also demonstrate that it communicates in a transparent and responsive manner, implementing the new regulatory and assurance framework in a modern and collaborative way.</p>

Potential focus areas	Definition
<b>Risk based and data driven</b>	The department can demonstrate that it manages risks proportionately and can maintain essential safeguards while minimising regulatory burden and leveraging data and digital technology to help those they regulate to comply and grow.

Our approach to quality assurance will eventually incorporate metrics that allow for tracking performance against each of the focus areas in Table 6. However, given the complexity associated with implementing a new regulatory and assurance framework, we will initially select 3 external focus areas. This approach helps simplify and streamline the process of upskilling staff in the application of the regulatory and assurance framework, as well as minimising the resourcing burden. The department’s initial areas of focus are:

- role clarity
- accountability and transparency
- collaboration and stakeholder engagement.

The rationale for focusing on each of these is explored below, along with some initial measurements that will be used to effectively track performance without imposing overly burdensome administrative effort.

The department should also consider future monitoring arrangements for the remaining focus areas identified in Table 6 (decision-making structures, performance monitoring, collaboration and engagement, and risk based and data driven). These focus areas were identified as future-state considerations as they more complicated to measure in the immediate term. Over time, we expect our approach to quality assurance of the regulatory and assurance framework will involve regular monitoring all the focus areas in Table 6. We will work with internal and external stakeholders to guide decisions on how monitoring of additional focus areas should be sequenced and implemented.

## Role clarity

The new regulatory and assurance framework represents a significant change in how the department works. To ensure it is effective, all stakeholders must be aware of the changes that have occurred and how they should respond. Support must also be available to ensure that they understand their own responsibilities and how they can most effectively participate in the new regulatory environment.

Table 7. External quality assurance focus area – role clarity

Indicator of regulatory performance	Measurement
<p><b>Sector understanding of the department's role</b></p> <p>Objectives of the regulatory and assurance framework and the department's regulatory role are clearly understood by local water utilities</p>	<ul style="list-style-type: none"> <li>• A support program (e.g. workshops, guides) is delivered on a regular basis (subject to updates as required) (measured annually).</li> <li>• A quantitative rating of understanding of objectives and department's roles (measured by the 6-monthly regulator perception survey).</li> <li>• Sample of regulated parties interviewed each year – qualitative assessment of their understanding of objectives and the department's regulatory role (measured annually).</li> <li>• Gaps in the knowledge and understanding of regulated parties are identified and are made a focus of planning meetings within the department and externally focused engagement (measured annually and implemented on a rolling basis).</li> </ul>
<p><b>Sector understanding of their responsibilities</b></p> <p>Regulated parties are supported to work effectively within the new regulatory and assurance framework, and understand how and where the department can provide assistance and support</p>	<ul style="list-style-type: none"> <li>• A support program (e.g. workshops, guides) has been designed and is delivered on a regular basis (subject to updates as required) (measured annually).</li> <li>• Regulated parties report a clear understanding of the regulatory and assurance framework and how to work within it (measured by the 6-monthly regulator perception survey).</li> <li>• Regulated parties are asked about any gaps in their knowledge of the regulatory and assurance framework or how to respond to the framework and practice and training are adapted in response (measured by the 6-monthly regulator perception survey).</li> </ul>



## Accountability and transparency

The new regulatory and assurance framework reflects a clear commitment on behalf of the department to operate in a completely accountable and transparent manner, supported by robust and consistent decision-making and engagement processes. Being able to demonstrate that this is being achieved and identifying (and acting on) opportunities for improvement will help grow trust and support from the local water utilities and broader sector.

Table 8. External quality assurance focus area – accountability and transparency

Indicator of regulatory performance	Measurement
<p><b>Transparency of decision making</b> Regulated parties understand how and why decisions are made</p>	<ul style="list-style-type: none"> <li>• There is a clear and published decision-making framework (measured annually).</li> <li>• A survey of regulated parties highlights that they have an appreciation of this approach and why it works (measured by the 6-monthly regulator perception survey).</li> <li>• All decisions are communicated with reasons (measured annually).</li> <li>• A register for documenting the reasons for request for review of decisions is in place (measured annually).</li> <li>• Gaps in the knowledge of regulated parties and in the decision-making approach are proactively identified and the discussion of any identified gaps is a feature of team and executive meetings (measured annually and implemented on a rolling basis).</li> </ul>
<p><b>Appropriateness of decisions and of the review process</b> The department is accountable for its decisions and uses the review process to assure its decision-making is sound</p>	<ul style="list-style-type: none"> <li>• Decisions are always made against a clear framework, based on clear reasons and are subject to internal review and approval (measured annually).</li> <li>• An external review process is established, monitored to ensure it performs effectively, and information about the process is regularly communicated to regulated parties (measured annually).</li> <li>• The review process is only used by regulated parties in a small percentage of cases in line with performance measures set on an annual basis (measured annually).</li> <li>• Survey insights from regulated parties are collected regarding the review process and any issues and how frequently it is used are a feature of team and executive meetings (measured annually and implemented on a rolling basis).</li> </ul>

## Collaboration and stakeholder engagement

Best practice regulators are transparent, open and responsive to feedback on how they operate. They engage in genuine 2-way dialogue with stakeholders and the broader community on their performance. Transparency in process supports community trust by demonstrating a regulator’s priorities and integrity. The department should clearly communicate regulatory processes and decisions.

Our knowledge of the sector, businesses and citizens affected by the new regulatory and assurance framework helps effective regulation. Regulators should also engage with regulated entities and other stakeholders to enhance public and stakeholder confidence in the regulator and to improve regulatory outcomes.

Table 9. External quality assurance focus area – collaboration and stakeholder engagement

Indicator of regulatory performance	Measurement
<p><b>Breadth of engagement</b></p> <p>The department works with most regulated parties on a regular basis, rather than focusing solely on specific parties</p>	<ul style="list-style-type: none"> <li>Engagements with regulated parties are measured, with the department engaging with each party at least once every 2 years, regardless of the level of risk their organisation presents.</li> <li>Feedback is collected about the department’s engagement program in general, and from each specific engagement. Insights distilled from this collection are used to inform team and executive meetings and departmental planning (measured and implemented on a rolling basis).</li> </ul>
<p><b>Communication of expectations</b></p> <p>There is regular communication about regulatory expectations and proposed approaches</p>	<ul style="list-style-type: none"> <li>The department prepares guidance on its regulatory and assurance agenda for each year and communicates this to regulated parties (measured annually).</li> <li>Data on regulatory and assurance performance, as well as advisory and support performance, is captured and published, along with key take aways/potential risks (measured annually).</li> <li>Data on regulatory and assurance performance, and advisory and support performance, informs annual and multi-year planning discussions at a team and executive level (measured annually).</li> </ul>

# Implementation

Ultimately, the department should implement a quality assurance framework that provides insight and measurement related to each of the internal and external factors. The degree to which these factors need to be fully understood is a contextually specific question, and one that relevant executives should consider.

Additionally, we anticipate our quality assurance needs will change over time, particularly as the department and the sector grow in their maturity and understanding of the new regulatory and assurance framework. We will revisit this framework at least every two years, with a view to revising the framework based on the following questions:

- What should we be measuring?
- What information should we collect to measure this?
- What information is available that we are not yet collecting?

The selections of metrics and focus areas made in this document can (and should) be challenged over time.

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## Continuous improvement

Best-practice regulators demonstrate a clear commitment to and prioritisation of continuous improvement in their processes, governance, and capabilities. They identify and develop organisational values and create a positive culture that supports best practice. Quality assurance monitoring activities are not undertaken for their own sake but are routinely and regularly used to identify opportunities for improvements to practices, processes, and policies (based on internal and external metrics and feedback).

We will seek to improve how we work with stakeholders and exercise our functions, while remaining flexible and responsive to changing circumstances. We will respond to changing community expectations to build trust and public confidence in our operations by clearly linking outcomes of quality assurance monitoring activities to improvement initiatives and reporting on progress. This will be codified and updated in a formal continuous improvement action plan, supported by a regular periodic review to identify and pursue performance improvement opportunities.

The department should be able to demonstrate clear methodologies used to understand the costs, impact and outcomes of regulation and collect evidence of this at a system-wide level, using insights to support and drive improved outcomes.