



**AUSTRALIAN^{AWA}
WATER**

ASSOCIATION

**Submission to *Environment and
Communications Legislation Committee,
National Water Commission (Abolition) Bill 2014***



Submission to Environment and Communications Legislation Committee on National Water Commission (Abolition) Bill 2014

Summary

The Australian Water Association (AWA) is calling for:

1. Independent, national, thought leadership for the water sector
2. Frank and fearless review, and transparent reporting of, national water management for multiple stakeholders
3. Reinvigoration of the National Water Initiative (NWI).

AWA does not support the abolition of the National Water Commission on the basis that it removes any national leadership of Australia's most valuable economic and environmental resource.

AWA is Australia's leading membership association for water professionals and organisations. AWA is independent and plays an essential role in supporting the Australian water sector in the delivery of effective and sustainable water management practices. Our mission is to foster knowledge, understanding and advancement in sustainable water management – its science, practice and policy – through advocacy, collaboration and professional development.

The water sector

The water sector is critical to Australia's economy, society and environment. It provides healthy, safe and reliable water and wastewater services that support Australia's high standards of living and underpin its economic success. The sector delivers a range of social and environmental outcomes through its protection of public health, contribution to amenity and recreation and facilitation of development. It also ensures environmental health and biodiversity outcomes in catchments and water systems, including estuaries, coasts and bays.

The National Water Initiative includes commitments to provide water for the environment, address over-allocation of rural supplies, register water rights, develop standards for water accounting, expand water trading, improve water supply pricing and manage urban water demands. In doing so the NWI has highlighted the value of water as contributing to economic prosperity in Australia. Key industries, and emerging industries, including food and beverage industry, agribusiness, power and energy, mining and tourism and leisure all depend on water and effective management to succeed.

According to a recent report by the National Centre for Groundwater Research and Training (NCGRT) *Economic Value of Groundwater in Australia*, the economic contribution of groundwater alone to Gross Domestic Product (GDP) is between \$3.0 - \$11.1 billion, with a midpoint of \$6.8 billion per annum. Further, they go on to state the 'value of production supported' figures are a lot higher - \$33.8 billion.

Further reform of water pricing, trading and infrastructure is needed to promote strong economic growth, sustain population growth and prevent irreparable environmental damage. Long-term sustainability in urban and rural water use will require a new, ambitious reform agenda with States and industry.

Why is a national approach for water needed?

Leadership. There is a need for leadership that can challenge, encourage and collaborate to lead reform of the water industry and provide a cohesive national approach to the way Australia manages, measures, plans for, prices and trades water.

Independence. Australia needs a fully independent body that can provide fearless advice and transparent reviews and information for customers, regulators and stakeholders to make informed decisions about water management.

Economic growth. The water sector is critical to sustainable economic growth in Australia and its future productivity and prosperity across our cities and towns, our resources sector and agricultural sector. A national and independent body strengthens the water industry's ability to engage Australia in meaningful dialogue on future challenges.

Although urban water is constitutionally a State responsibility, there is a role for national action to improve economic regulation across the sector, facilitate increased private sector involvement and improve the robustness of urban water planning. A national approach is required to ensure the sector maintains and improves its performance over the long-term, both in urban and rural contexts.

Water management in Australia has developed to be robust, transparent and collaborative. It is recognised internationally for taking action early and decisively, particularly during the millennium drought. This recognition in fact is acknowledged as coming from a national level, when there was bipartisan political and multi-level stakeholder led support for the National Water Initiative and the National Water Commission.

The National Water Commission (Abolition) Bill 2014 comes at a time where there are a number of reviews underway which comment on national leadership and the role of State and Commonwealth governments. We believe that State action alone is not enough.

Unfortunately we are already seeing backsliding from States in relation to implementing the National Water Initiative:

- Increasing politicised pricing determinations with rates of return that will not encourage private sector investment
- In many growing regional centres the transition to upper bound pricing is slow to non-existent
- Poor governance arrangements, for example some governments have not moved towards upper-bound pricing for utilities which is a clause stipulated in NWI

Abolishing the National Water Commission, a body providing fearless advice to both Federal and State governments, will allow conditions for this backsliding to continue.

In relation to competition, although there may be benefits for the States, there is also benefit to a national approach, as outlined by the recent Competition Policy Review Draft Report (Harper Review) released in September 2014. The Review calls on all governments to re-commit to reform in the water sector with a view to creating a national framework. It states:

“Water reform has been slow. A more national approach to water reform may re-establish its momentum. An intergovernmental agreement founded on the assumption that a national framework is both achievable and desirable may clear some roadblocks. A consistent national

framework may also assist in driving competition into the retailing of water and creating more effective price signals.”

A national approach does not rule out innovation at a State level. There is an argument that the States could compete against each other, but this has not yet been done for water and the *Harper Review Draft Report* recommends a national approach is needed for effective momentum in this area.

When creating the National Water Commission in 2004, the Government outlined the reasons why national leadership was important including:

- drought and climate change
- the importance of water in securing Australia’s economic and environmental future
- the value of water for recreation and tourism
- the need to advance sustainable use of water
- fast-growing cities

In 2004, when a national body to provide leadership and independence was created, these reasons underscored a need for national effort in managing water resources. These reasons remain true today. In fact, more challenges have arisen since 2004, including:

- the role of water management in energy production
- the generation and use of energy in water management
- the potential alignment of water, energy and waste services at a retail level
- balancing the creation of long lived assets such as desalination plants against short term affordability issues and the unknown extremes of climate change
- water management in the resources sector, including coal seam gas
- water management in Northern Australia

Meeting these challenges will be harder without national leadership and could result in inferior outcomes for customers, industry and the environment. Further, while the water and energy ‘nexus’ is acknowledged as a key challenge for Australia (Challenges at Energy-Water-Carbon Intersections. Prime Minister’s Science, Engineering and Innovation Council Report 2010) the energy sector has maintained a focus at a national level, through regulation at the ACCC and through COAG, and yet we are now facing the prospect of water management having no national focus at all.

Meeting future challenges

There is no room for complacency. Australia needs a resilient water industry to meet future challenges. Improvements in water efficiency and water conservation, as well as new water resources will be required. A national independent body with a focus on water is required to meet the future challenges of:

Climate change. Drought will return. In its October 2014 outlook, the Bureau of Meteorology (BOM) predicts drier conditions are likely over much of central and eastern Australia and the October to December temperature outlooks are for warmer than normal days over most of Australia. In addition there is at least a 50% chance of El Niño developing over the coming months. In its *State of the Climate 2014 Report*, the BOM states that Australian temperatures are projected to continue to increase, with more extremely hot days and fewer extremely cool days.

Population growth. The ABS projects Australia's estimated resident population to increase from 23 million now to between 36.8 and 48.3 million people by 2061.

Liveable and productive cities. 80% of the dollar value of all goods and services in Australia is produced on just 0.2% of the nation's land mass, nearly all of it in cities. Sydney and Melbourne CBDs alone generate nearly 10% of the value of goods and services produced in all of Australia. (Grattan Institute Report: Mapping Australia's economy - Cities as engines of prosperity July 2014). Urban planning (which includes the provision of water and sanitation services) done poorly in all of Australia's cities, can drag on the national GDP.

Infrastructure needs. Ageing water supply and wastewater infrastructure exists throughout Australia and in most places (particularly in regional Australia), the responsible organisations do not have the means to adequately invest in maintenance or augmentation.

Unlocking private investment. Most of Australia's water assets are publicly owned including \$50 billion to \$60 billion of water infrastructure suitable to be transferred to the private sector. Future efficiency and innovation will be driven by greater private sector involvement. Urban water assets comprise over half of the \$120 billion for potential capital recycling identified by Infrastructure Australia. There is also considerable scope for attracting private sector investment in supplying water to agribusiness. For example the Commonwealth Government's recent *Pivot North* report highlights the important role that water will play in unlocking growth in the primary production industry in Northern Australia. CSIRO estimates up to 17 million hectares of suitable soil could be used for agricultural purposes, while only 135 000 hectares is being utilised.

State indebtedness. The Victorian Auditor General's recent report found that interest-bearing liabilities in the Victorian water sector increased by \$10.3 billion, or 248% and finance costs now account for 21% of the total operating costs each year. It found that servicing the growing debt and repaying the debt in the future are key challenges for the industry.

For Australia to reach its full economic and social potential it will require significant expansion of land development and population growth. These major drivers of future national economic prosperity need to be balanced carefully with sustainable water usage and environmental protection. To maximise these economic activities for Australia, a national strategy on industry development that incorporates sustainable water management needs to be embraced by the Federal Government with community and industry consultation and support.

Proposed role of Productivity Commission

The National Water Commission (Abolition) Bill 2014 proposes that two key statutory functions of the NWC remain: triennial assessments of progress on implementation of the National Water Initiative (NWI) and audits of the implementation of the Murray-Darling Basin Plan and associated Basin State water resource. Both these functions are proposed for transfer to the Productivity Commission (PC). The PC is the Commonwealth's pre-eminent independent research and advisory body on a range of economic, social and environmental issues (as stated on its website). However it does not traditionally oversee and implement programs, and does not have a role in facilitating collaboration among stakeholders across ongoing programs, which is needed for the water industry.

There is also widespread agreement that the NWI requires recommitment and expansion, especially in relation to urban water. See submissions by AWA and WSAA in 2012 to Environment and Communications Legislation Committee on the NWC Amendment Bill 2012

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Completed%20inquiries/2010-13/nationalwater2012/submissions.

AWA are not convinced the PC has a role in being able to lead the development of a new reform agenda through a renewing of the NWI. The Independent Review of the NWC commissioned by the Commonwealth Government on behalf of COAG found that implementation of the NWI is occurring within a highly complex and evolving environment and that this requires an independent and specialist institution to credibly engage with, and report on, the progress of water reform. We agree with this finding and call for an independent body to provide this leadership for water reform. However, the NWI needs more than enduring principles, it needs a national action plan to develop and achieve outcomes through which the wider community is fully engaged. Further, the plan needs to articulate the competing interests for water use in emerging industries, and how best to manage these demands. The competing interests of different industries, communities and the environment will continue to evolve as new industries are developed (e.g. unconventional gas) and existing businesses expand to meet new international opportunities across Asia (agrifood and tourism).

The Bill

We note the Bill abolishes the National Water Commission, while transferring only two statutory functions to the PC. As outlined above, there remains an imperative for a national water body that is independent from agencies and can provide strong leadership by supporting water reform for the benefit of Australia's economic and environmental future.

AWA are calling for:

- 1) Independent, national thought leadership for the water sector
- 2) Frank and fearless review, and transparent reporting of, national water management for multiple stakeholders
- 3) Reinvigoration of the National Water Initiative (NWI).

AWA recommend that:

- 1) A revised National Water Initiative be developed for urban water to meet the challenges of
 - a) Climate variability, urban growth and the liveability of our cities and towns;
 - b) Providing the financial sustainability necessary for utilities to deliver the services that customers need and are willing to pay for; and
 - c) Enabling greater private participation in the industry to drive innovation.
- 2) The National Water Initiative should bind state governments to implement a regulatory framework which at least meets the following criteria:
 - a) Has clear objectives – protecting the long term interests of consumers;
 - b) Is customer-centric – the regulator avoids getting unnecessarily between the utility and its customers;
 - c) Establishes a framework where broader costs and benefits can be incorporated into investment decisions for the full range of services it provides across the water cycle;
 - d) Has appropriate risk sharing mechanisms — for example, revenue caps, and pass through mechanisms;
 - e) Has strong incentives for efficiency and innovation, including rewards as well as sanctions; and
 - f) Contains an appeal mechanism.

3) The National Water Initiative, now and once revised, requires an independent custodian – the role that has been performed by the National Water Commission – who will collaborate and maintain a constant vigilance and leadership role.

Contact details

AWA welcomes the opportunity to provide a submission to the Committee on this important matter. If there are any details you wish to follow up on, please contact:

Jonathan McKeown, Chief Executive

Amanda White, National Manager – Communications and Policy