



National Water Reform – Productivity Commission Draft Report

This submission responds to issues raised in the Productivity Commission’s draft report on water reform in Australia, released on 15 September 2017. It focusses on particular matters of interest directly relevant to the Department of Agriculture and Water Resources (the Department).

The Department welcomes the Commission’s draft finding that the National Water Initiative (NWI) has generally served Australia well and is widely regarded as a successful reform initiative. We support the draft report’s emphasis on maintaining water reform achievements to date and further discussion of opportunities to enhance water management in areas such as the urban water sector. However, the draft report presents some findings about the economic viability and efficiency of irrigation infrastructure projects which are inconsistent with the current approach by the Government. We encourage the Commission to consider the extra information provided in this submission and trust that these additional points will assist in the finalisation of its report due in December 2017.

Government-funded infrastructure for agriculture

The draft report presents several findings in regard to the economic viability and efficiency of irrigation infrastructure projects.

Access to secure and affordable, fit-for-purpose water supplies is a key driver for development in Australia, particularly in regional and remote Australia, where access to reliable water supplies is a constraint to private investment in primary industries, including agriculture, and communities.

In 2014 the Water Infrastructure Ministerial Working Group, established by the Prime Minister and chaired by the Minister for Agriculture, identified ways to accelerate investment in water infrastructure. The Working Group consulted with state and territory governments to identify potential investment opportunities, including investment in water infrastructure to meet Australia’s water supply needs in the future. The Working Group determined that the Commonwealth can play a valuable role in supporting infrastructure projects that have strong state support, are in the national interest, and deliver net economic and social benefits and broader public benefits (<http://agwhitepaper.agriculture.gov.au/SiteCollectionDocuments/ag-competitiveness-white-paper.pdf>).

Investments by the Australian Government through the \$500 million National Water Infrastructure Development Fund (fund) and the \$2 billion National Water Infrastructure Loan Facility (loan facility) are examples of programs conditional on state and territory governments implementing NWI outcomes. For example, the fund and the loan facility require mandatory criteria be met as expressed through the program guidelines, including demonstration of public benefit and compliance with the NWI.



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The policy intent for the fund is articulated in the Agricultural Competitiveness White Paper and the approach has been replicated for the loan facility. Particularly in relation to the NWI, the Australian Government's expectations are set out in additional published guidance to support program funding. This approach is intended to encourage state and territory governments to develop and implement arrangements consistent with the NWI and underpin investment security for the Commonwealth, state and territory governments, project partners and irrigators.

The criteria for investments made by the Commonwealth are rigorous, including that projects should:

- be developed and managed in accordance with the NWI;
- be of public benefit;
- be economically viable; and
- have required regulatory and planning approvals in place.

The Australian Government recognises that water infrastructure provides a range of public and private benefits, and will co-invest in projects where states can demonstrate beneficial outcomes for economic development and increased regional productivity. Within this context, Australian Government investments in water infrastructure can support and expedite the implementation of the NWI reform agenda and drive the profitable and sustainable use of water for regional economic development.

Governance arrangements for Commonwealth held environmental water

The Commission's analysis and recommendations about the possible devolution of management of the Commonwealth's water holdings overlook the significant investment the Commonwealth Environmental Water Holder (CEWH) already makes in local and regional level engagement and consultation about environmental water use. An important aspect of the CEWH's approach is the broader view taken in regard to Basin-wide outcomes and in establishing its 'good neighbour' policy. These approaches support coordination and collaboration beyond the local scale.

Full devolvement of Commonwealth environmental water management would undermine one of the principal benefits and mechanisms of the Basin Plan – a Commonwealth agency with responsibility to consider environmental objectives at a whole-of-catchment level across catchment and state boundaries, and the capacity to transfer and trade water between jurisdictions as needed, to achieve those objectives.

Water trading

The Department notes the Productivity Commission's call for increased transparency of market information and provides the following update on successful applicants for Business Research and Innovation Initiative (BRII) funding recently announced by the Department of Industry, Innovation and Science:

Marsden Jacob Associates (MJA) has been awarded a \$1 million grant to develop an innovative solution to improve transparency, price discovery and reliability of Australian water market information. The funding is for Proof-of-Concept to deliver timely, accurate and transparent market information to end-users in the Murray-Darling Basin. There is scope for this solution to be delivered more widely depending on the interest of markets elsewhere in Australia and the viability of the solution as tested in coming months. The



proposal will also assist in increasing water market understanding and awareness across all interested parties. A base version of the solution enabling access to market information will be provided free to all interested end-users including irrigators, brokers, market analysts and governments.

In regard to the reporting of accurate prices on state registries, the Department considers that the final report could usefully provide further analysis, building on the lack of detail around price reporting on state registries to extend to actions and requirements for reporting of the true or actual price of water traded.

There are a number of concerns around what and when figures are reported on state registries. True and accurate reporting will also require the type or nature of the trade to be reported along with the price. For example, was the trade for delivery now or a forward contract for the next water year? Was it for environmental or other water? Was it a transfer between different operational elements of the one organisation?

A driver for more accurate reporting is not only to inform trade in the market, it is also for the provision of information under state and federal requirements that may either impose tax or have thresholds for reporting. At the federal level there are several requirements in legislation driven by value of land as thresholds on certain reporting requirements.

The draft report also provides some commentary of the role of brokers, as a subset of intermediaries. The Australian Government is currently working with the Australian Water Brokers Association (AWBA) in its efforts to develop and improve participation in a self-regulation initiative. Within this context, it is worth noting other measures in place such as the requirement of the Victorian Water Registry that participation of brokers in trading on the Victorian Water Registry includes compliance audited by the Victorian government on an annual basis.

Overall, there is more work to do on reforming water trading which is critical to ensure the effective operation of these markets and their contribution to allocative efficiency.

Urban water

The Department notes the Commission's analysis of the urban water sector in the draft report and supports many of the proposed policy reform directions, particularly those in the areas of better economic regulation, improved pricing, governance, competition, planning and environmental regulation.

In some of these areas, it would be useful for the final report to further expand on the arguments presented and to provide additional information, including:

- better defining the term 'appropriate scale' in the extension of economic regulation and further articulating the priorities for improved independent economic regulation in all jurisdictions;
- elevating the need for a set of common principles for economic regulation to a priority action;
- exploring whether providing regulators with a standing reference, rather than deterministic powers, would be sufficient to improve the effectiveness of price setting processes;



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- further examining different models for collaboration amongst local water utilities and providing additional analysis on whether there is a natural progression towards an optimal arrangement;
- discussion of who should determine the level of Community Service Obligation (CSO) payments by state and territory governments and how they should be calculated; and
- whether there should be greater clarity (e.g. statutory requirement) for the development of integrated water cycle management (IWCM) plans as part of broader urban planning processes for major growth corridors and significant developments.