

BUSINESS NSW

13 August 2020

National Water Reform 2020
Productivity Commission Locked Bag
2 Collins Street East
MELBOURNE VIC 8003

Business NSW response to National Water Reform Issues Paper

Thank you for the opportunity to respond to the National Water Reform Issues Paper. **Business NSW's** response and recommendations are provided below.

Impacts of drought

Businesses has suffered from multiple overlapping crises, with COVID-19, bushfires and drought all occurring within a short time period.

In March 2020, Business NSW attempted to gauge the revenue impacts of these different causes.¹ At that time, the impact of the coronavirus was already clear. Our survey results that for the agriculture, forestry and fishing sector, and for the New England and Northwest and Far West and Orana regions, the impacts of drought and COVID-19 were comparable (see *Figure 1: Revenue impacts by cause, by industry and region*).

Despite rainfall in the first half of 2020 in some parts of NSW, our most recent survey of members shows concerns about the impacts of drought are still rising in New England and Northwest NSW and the Riverina² and among businesses in primary industries.³

In November, we responded to the NSW Legislative Assembly Committee on Investment, Industry and Regional Development inquiry into supporting drought-affected communities. That submission highlighted the importance of measures targeting water resilience, such as fast-tracking water infrastructure. It also emphasised the need to improve the economic resilience of businesses in drought-affected areas, for example, through payroll tax reform.⁴

¹ [https://www.businessnsw.com/content/dam/nswbc/businessnsw/bcs-reports/BCS%20Report%20-%20March%202020%20-%20COVID19%20Special%20Edition%20\(V2\)%20.pdf](https://www.businessnsw.com/content/dam/nswbc/businessnsw/bcs-reports/BCS%20Report%20-%20March%202020%20-%20COVID19%20Special%20Edition%20(V2)%20.pdf)

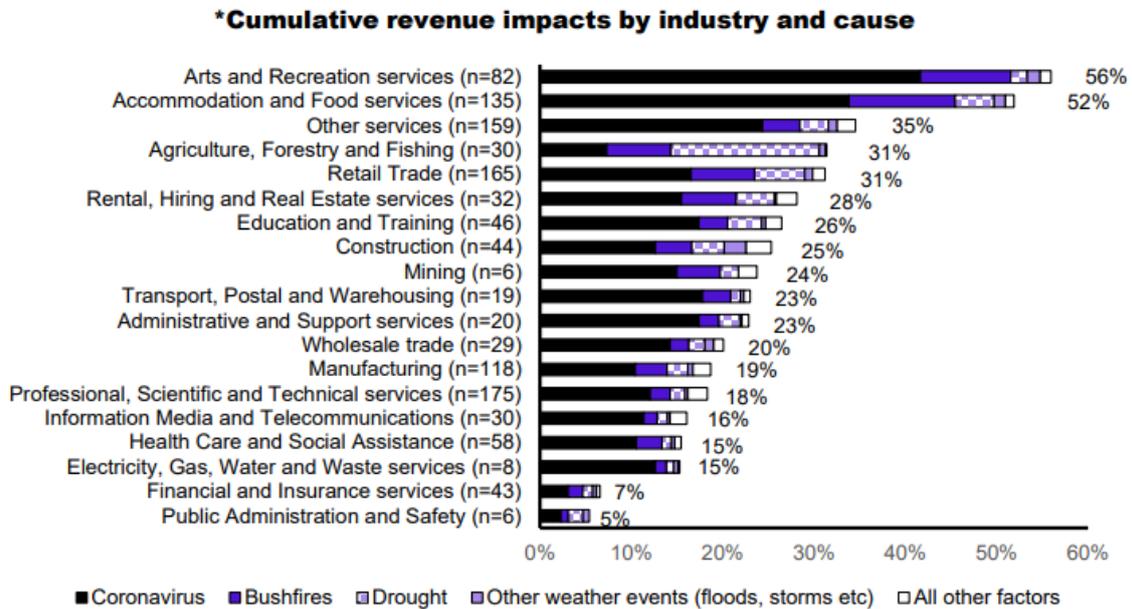
² <https://www.businessnsw.com/content/dam/nswbc/businessnsw/bcs-reports/BCS%20JUNE2020%20-%20Regional%20Recap.pdf>

³ <https://www.businessnsw.com/content/dam/nswbc/businessnsw/bcs-reports/BCS%20JUNE2020%20-%20ABS%20Industry%20Recap.pdf>

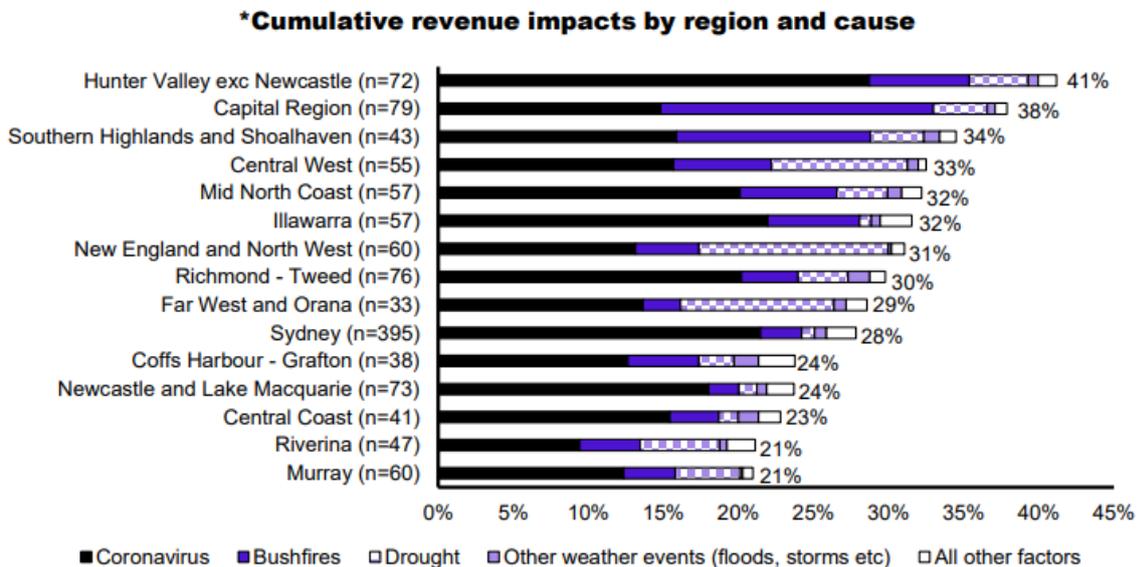
⁴ <https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/191129-Drought-Inquiry.pdf>

Formerly NSW Business Chamber, Business NSW is the peak policy and advocacy body which has been representing businesses in NSW since 1826. Business NSW is one of Australia's largest business support groups with a direct membership of 20,000 businesses. Business NSW works with government, industry groups, as well as business and community leaders to provide a voice for our members. Operating throughout a network in metropolitan and regional NSW, Business NSW represents the needs of business at a local, state and federal level.

Figure 1: Revenue impacts by cause, by industry and region



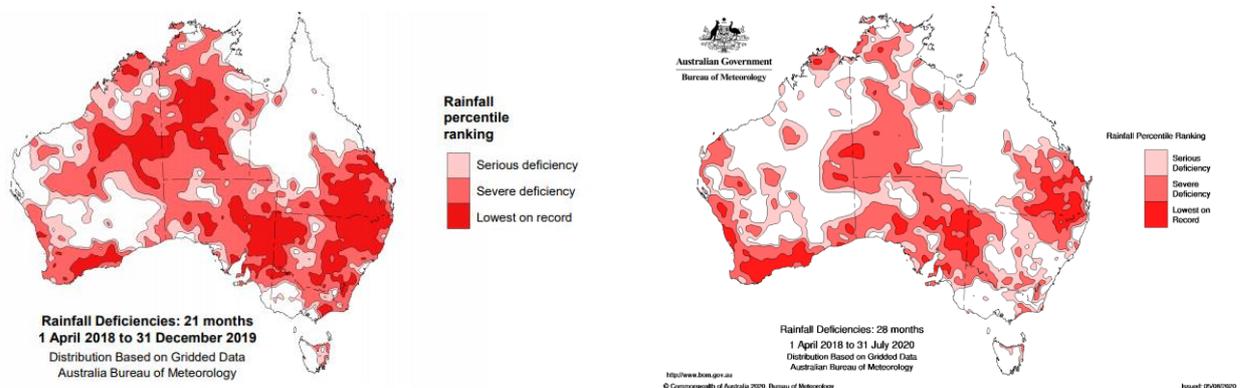
*Calculated as a weighted average using responses to the following questions:
 -To what extent is current revenue below what you expected it to be?
 -Out of 100, what share of your business's lower revenue do you attribute to each of the following factors?



Recent rainfall has significantly eased acute concerns about water deficiencies and drought. This is reflected in the Bureau of Meteorology's records of rainfall deficiencies (see *Figure 2: Australian Rainfall Deficiencies, Bureau of Meteorology*) which have changed since the Issues Paper was released. However, water management infrastructure exists to meet long term needs, and the easing of recent pressures should not excuse inaction on infrastructure that will improve Australia's ability to respond to future droughts.

Figure 2: Australian Rainfall Deficiencies, Bureau of Meteorology

Figure 1 **Australian rainfall deficiencies^a**
1 April 2018 to 31 December 2019



^a Rainfall deficiency defined as the average rainfall for an area minus the rainfall received. 'Lowest on Record' refers to records dating to 1900.
Source: BOM (2020a).

Business NSW supports an approach to water strategy that ensures infrastructure is in place to mitigate the effects of future droughts. Recent inadequacies have led to problems for businesses in different parts of the state. A stone benchtop maker in the New England region was unable to operate during the 2019-20 summer due to water restrictions. A food manufacturing member business relocated from Nimbin, NSW, to the Queensland Gold Coast after running out of potable water supply.

Water restrictions cause widespread issues with businesses which have flow-on effects – if a concreter is unable to produce concrete, a builder can't begin work on a property, which means other tradespeople are unable to carry out their tasks. Water pricing, and the likelihood of water use restrictions, are becoming increasingly prominent factors in businesses' decisions over where to locate.

Improving water efficiency with integrated water management

Recommendation 1

Practices being implemented by Sydney Water and Hunter Water can be models for other water authorities around the country looking to better understand the technology and design possibilities available to them.

Recommendation 2

Relevant organisations should better coordinate water management practices to improve water management.

The Issues Paper highlights “concerns with the way that some metropolitan utilities are managing the trade-off between short-term affordability and long-term financial sustainability”.

Improving the efficiency with which runoff water is held in the environment and made available for human use will be an increasingly important element of infrastructure design. Without further steps to improve water availability, water will be an increasingly severe constraint on growth, both in NSW's urban areas and in regional NSW. Good and abundant water supply is a significant strategic advantage for a region and a country. There is concern that water resourcing and supply is more brittle than it once was, owing to factors like more regular droughts and unpredictability in usage.

Sydney's aged stormwater system sees most of the rainwater that falls on the city each year – along with any detritus collected as it flows – carried straight into the sea without prospect of being treated or captured for use. Beaches in Eastern Sydney have for many years had to deal with stormwater outflow and sewerage system overflow at times of high rainfall, leading to contaminated water and discouraging swimming and surfing activities.

Divided responsibilities are a barrier to improving stormwater management. Councils hold primary responsibility, but interact with state government and state-owned corporations. Each of the participants in this process faces only a partial set of incentives and accountabilities. Councils may underinvest if they face direct costs to improve infrastructure where benefits are likely to accrue to other councils further downstream. Sydney Water has limited authority to direct individual councils to make decisions that support the operation of its system as a whole. As the NSW Productivity Commission has identified, the water sector's "functions are spread across many agencies and corporations in all three levels of government, creating coordination challenges"⁵

Replacing or refurbishing Sydney's stormwater and water treatment infrastructure within an active city is challenging, but will be needed if bathing water quality is to be brought up to standards enforced in parts of Europe and North America. In new neighbourhoods, intelligent design decisions built in to plans from the beginning can ensure water is handled far more efficiently.

Water efficient urban planning has been central to design decisions made for the Western Parkland City and Aerotropolis developments in Western Sydney. Water demand in Western Sydney will exceed sustainable water availability within 15 years without activity to improve water re-use and efficiency. Better management of available water will also help to manage heat.⁶ Water recovery facilities will be integral to the creation of a sustainable Western Sydney. Sydney Water is also proposing to implement smart technology to manage water in the Western Parkland City in a more sophisticated way than is common practice currently.

Hunter Water in Newcastle and its surrounding areas has also made efforts to reduce leaks and improve its ability to reuse and recycle water and preserve urban run-off in the environment, reducing waste and improving environmental outcomes.⁷

Local water authority capacity and capability

Recommendation 3

States and local councils should be encouraged to work together to develop a standard framework for determining the circumstances in which different levels of water restrictions should be introduced.

The Issues Paper describes that "small utilities may charge too little for water in response to affordability concerns, but doing so can limit their ability to plan for and make the investments necessary to provide reliable water services over the long term".

The councils who act as water supply authorities have variable resources, political incentives and access to expertise. The result can be a patchwork of inconsistent policies within relatively small distances. At times when surrounding communities were undergoing Level 5 water restrictions, Dubbo held out with no restrictions in place for a long period, then jumped straight to Level 4. This led to

⁵ Productivity Commission Green Paper https://www.productivity.nsw.gov.au/sites/default/files/2020-08/Productivity_Commission_Green%20Paper_FINAL.pdf, pp. 136-160

⁶ Presentation by Chris Gould, Sydney Water, at Western Sydney Business Chamber, 23 August 2019

⁷ Presentation by Jim Bentley, NSW Department for Planning Industry and Environment, at Hunter Business Chamber, 14 February 2020

tensions between different communities and calls for standardisation.⁸ The dam serving Dubbo dropped to 1.5 per cent of its capacity before recovering.⁹ This becomes a particularly acute problem when facing drought conditions.

For example, in the Northern Rivers area of NSW, some Local Government Areas have a mix of supply from Rous County Council and local supply. The Byron Shire draws most of its water from Rous, but the township of Mullumbimby has its own weir. Last year the Splendour Festival (which is provided water through Mullumbimby) took place during the severe drought. Rous had put in place water restrictions, but there was no water restriction for Mullumbimby. This caused much angst within the local community and a backlash for the festival who had to bring in (and pay for) their own water.

The risk that this presents is that short-term decisions – such as low prices and unrestricted access – that are superficially attractive for users, including businesses, impede long-term conditions which sustain business activity. This can be a particular risk if councils adopt ‘beggar my neighbour’ approaches designed to lure in businesses from higher-cost, water-restrictive locations, only to themselves reach crisis points which can only be addressed by imposing emergency restrictions themselves.

It is understandable that there is a reluctance to invest in water infrastructure during times of high rainfall and high water availability. However, it is the only option if NSW is to be properly prepared for future droughts, which will inevitably come.

Given the geographic and climatic diversity of NSW, it would be inappropriate to standardise policy on restrictions to the extent that all users face the same restrictions at the same time. However, standardisation of the circumstances in which restrictions will be imposed would be appropriate, and would reduce the incentive on individual communities to ‘free ride’ on their neighbours.

Avoiding complacency and delay

Recommendation 4

Cost-benefit assessments of water infrastructure should better reflect interdependencies of proposed projects, and reflect whether the costs/risks of ‘doing nothing’ are being appropriately assessed.

The Issues Paper notes that “many smaller and regional water service providers are investing in ‘last minute’ supply augmentation in response to unprecedented dry conditions. The Commission will assess whether those investments are demonstrating that they are ecologically sustainable and economically viable, and will look at whether regional service providers have planned adequately for extreme events”.

While current dry conditions continue to affect parts of NSW, in other parts they have abated for the time being. The Commission should consider whether lessons from this drought have been learned, and incentives sufficiently changed, to avoid the current wetter conditions leading to a repeat of the complacency that preceded the recent drought, and left many communities ill-prepared. As part of the program of infrastructure contributing to post-COVID-19 recovery, both the Commonwealth and NSW governments are supporting investment in new dams or upgrades of existing dams (as well as other high capital cost projects including pipelines and desalination plants).

⁸ <https://www.smh.com.au/national/nsw/dubbo-to-change-water-restrictions-definition-following-backlash-20191104-p5379t.html>

⁹ <https://www.abc.net.au/news/2020-07-27/dubbo-council-water-restrictions-to-lift-gardeners-happy/12488890>

We are already witnessing squabbles arising between different tiers of government over dam proposals.¹⁰ It is certainly appropriate that dam-building proposals are subject to rigorous cost-benefit analysis. However, these proposals have a degree of inter-dependence – rejecting one proposal makes it even more essential that another occurs. When developing new guidelines for cost-benefit assessment, the relationship between different proposed projects in terms of meeting future water needs should be reflected.

If you have any questions about this submission or would like to discuss in more detail, please feel free to contact me

Yours sincerely

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¹⁰ For example <https://www.smh.com.au/environment/conservation/unacceptable-federal-department-blasts-warragamba-dam-wall-plan-20200816-p55m5v.html>; <https://www.smh.com.au/national/nsw/500-million-on-bugger-all-mayor-queries-dam-benefit-20200728-p55g8e.html>