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24 March 2021

National Water Reform inquiry

Productivity Commission

Locked Bag 2

Collins Street East

Melbourne Vic 8003

Via: Online portal

Dear Commission

National Water Reform 2020 – Productivity Commission Draft Report – February 2021

Thank you for the opportunity to provide comment on the National Water Reform Draft Report.

The Far North Queensland Regional Organisation of Councils (FNQROC) was established in the 1980's and represents 13 member councils in Far North Queensland. The FNQROC region is the largest and fastest growing region in Northern Australia. It extends over 320,000 square kilometres with a population of approximately 278,000 and a gross regional product (GRP) of \$16.92 billion.

We understood the need and the driving principles behind the 1994 COAG Water Reform Framework and continual refinement undertaken since.

The 13 councils have long been advocating for water security for urban and agricultural uses. We are fully aware that water underpins economic development in our region.

It is acknowledged that the majority of the discussion paper is about managing existing water infrastructure to manage limited water resources and drive towards a user pays system (acknowledging the additional costs to regional, rural and remote communities).

The National Water Initiative has enabled better management of our water resources and put a 'cost' on this valuable resource. There has been strong focus on full cost recovery, however, assessing cost recovery to date has been structured around cost benefit analysis used for infrastructure which has limited lag time before the returns are identified i.e. roads. Bulk water supply (dams) are built to a design life of 150 years yet the economic assessment is based on 30 and at most 50 years.

As mentioned in our submission to the Issues paper in August, to our understanding there has been no study into the long-term benefits of dams, despite this being a requirement of

funding. As mentioned, we commissioned a study through Aurecon and FTI Consulting to review four dams against a base case region with no dam.

The approach to this study has been to undertake a series of evidence-based case studies on dams operating for 30 years and over and compare them to a base case where a dam has been considered but not developed. To provide for realistic and meaningful comparisons, the sites selected for this study have the following characteristics:

- The dam had to be a public sector developed piece of infrastructure (implying a substantive minimum capacity and availability of the water)
- Water was available for commercial use under the prevailing National Water Initiative Pricing Principles (NWIPP) or its predecessors
- The primary function of the dam has been to provide water security for agricultural production
- Potable water supply is an adjunct use but not the primary use of the water
- Power generation and recreational use are adjunct uses but secondary uses

As a summary, what the study shows is that dams have transformative impacts on agricultural regions:

- Dams provide resilience and offer the ability to pivot when circumstances change
- Dams allow growth in agricultural productivity either through diversification of crops, and or intensification of crops
- Downstream industries evolved largely in the regions that received investments in water infrastructure
- The benefits from dams extended well outside a 30-year horizon
- The economic benefits of dams are spread more broadly than just the immediate water users. Pursuing a 'user pays' approach to capital and operation costs recovery, is potentially understating the broader group of beneficiaries and trying to burden those directly using the water.

Attached to this submission is the final draft of this report.

In terms of this draft report, our submission particularly focusses on government investment in major water infrastructure.

Section 13 – Government investment in major water infrastructure

1. This draft paper, and previous reviews have all used relatively new dams as examples of poor investment. Dams have a long life and a greater lag than infrastructure such as roads to realise their benefits.

2. As a nation we haven't examined the long-term economic benefits of investment into dams. How has the region changed as a result and how can we accommodate these findings into future assessments?
3. The NWI required that, in most cases, the costs of infrastructure construction should be borne by users. Under the NWI pricing principles, user charges are to be set to achieve full cost recovery of capital expenditures. Full cost recovery over 30 years for a dam does not reflect the long-term life of the asset (150 years design life).
4. Arguably the taxpayer should bare a share of the cost as evidenced by the economic development of dams in our case studies.
5. Any new framework for government investment in major water infrastructure, including project assessment and selection processes, should not only consider a changing climate (where will the water be?) and aspirations of Traditional Owners but also where we can grow our food and build national resilience.
6. Corporatised water service providers (urban water utilities, bulk water providers and irrigation operators) are not interested in the benefits to the greater region, they are interested in their own returns based on what they know today. There is no consideration of the need or benefits to future generations who will continue to be agile in a moving market; seeking to capitalise on high value crops and emerging technologies.
7. The paper on page 169 mentions Rookwood Weir with a business case demonstrating a benefit-cost ratio of less than 1. Arguably this is due to the BCR only looking forward 30, maybe 50 years. The attached case studies identify the benefits continue to grow past this time. The continued use of new dams as an example of poor decisions could be considered short sighted.
8. It was pleasing to read on page 170 the NWGA will consider Australian Government funding for projects that are:

“Of demonstrable public benefit and have a national interest element, including through securing the nation's water security, building resilience to future drought, supporting primary industries and promoting regional prosperity, including through the creation of jobs”.

How this is demonstrated will be difficult but should be supported.

The comments within the discussion paper (end of page 170) seem to indicate that the commission is not supportive of this as it believes this is subsidising a commercial operation which could be considered a narrow short term view, it does not consider the long term direct and indirect opportunities this investment enables.

9. Regional prosperity should be considered as part of an economic viability test. The statement *“All public investment will create some flow on economic impacts, but these often represent a transfer of resources and jobs between regions”* – is arguably anecdotal. As identified within our study, Tinaroo dam has enabled growth and expansion of the transport industry with more expansion required creating additional

jobs across the board. This has not been a transfer from another region but rather growth as a consequence.

10. Our case study assessment also challenges the statement (p172) *“Major water infrastructure tends to create few jobs, and often at a high cost”*. The example given for this is Paradise Dam, this does not acknowledge there was a construction flow and again, short term (immediate) benefits are trying to be obtained from a long-term asset. Dams are not roads.

The continued use of ‘young’ dams (such as Paradise and Rookwood) as examples of failure will only continue to inhibit Australia’s economic growth and resilience through agriculture. We should be looking and learning from our older dams.

11. We disagree with the statement (page 172) *“The existing principles of economic viability, ecological sustainability and user pays are sound and should be retained”*. The existing principles have stifled the development of resilient communities and regional economic growth.

12. We agree with clearly identifying government subsidies / cost sharing.

13. **Economic viability** – it is agreed that options should all be assessed however, as our study identifies ‘overly optimistic demand assessments’ prove to be understated when you are 40, 50 years down the life a dam.

14. **Principles for cost sharing between users and taxpayers** (p176)

- Public benefits **should** include regional development or similar strategic investments. Our study clearly identifies the long-term economic benefits afforded by dams on a community, and State and Federal revenue.
- *“Major water infrastructure that is not economically viable should not proceed, except where an equity argument supports provision of an essential service.”*

Under current arrangements this means investment will only be for urban water uses which will put at risk future food production and mitigation/migration strategies as a result of a changing climate.

15. Page 177 *“The success of water infrastructure in supporting regional development is often dependent on factors like transport infrastructure and supporting industries. These may not be in place – or considered in infrastructure proposals – are and often a more substantive barrier to regional development than the absence of water infrastructure”*

The attached paper and case studies show that supporting industries will gravitate to areas supported by water infrastructure i.e. When Tinaroo dam was built there was no transport industry, only a general (small) airport, single lane road transport. This region now has dual lane seal, a large international airport and a transport industry which can’t keep up with the transport need. Tinaroo is not the only example of this.

As a region, we sincerely thank you for providing an opportunity to feed into these papers. This is one topic which is so very important to regions in the North which offer so much opportunity for growth and taking the burden off Southern Australia.

Should you wish to discuss any aspect of our submission please do not hesitate to contact me

Yours sincerely

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Far North Queensland Regional Organisation of Councils