

PRODUCTIVITY COMMISSION DRAFT REPORT ON NATIONAL WATER REFORM

VICTORIAN GOVERNMENT SUBMISSION OCTOBER 2017

Thank you for the opportunity to comment on the Productivity Commission's draft report into National Water Reform. Since 2004, the National Water Initiative (NWI) has provided a good basis for water reform across a range of areas, particularly during the challenging period of the Millennium Drought. The NWI brought jurisdictions together and created a common understanding of the importance of water reform and the focal areas to improve water management in Australia to maintain our status as a world leader.

Victoria is broadly supportive of the direction taken by the Commission in the draft report. Presented below are Victoria's comments and feedback in relation to the draft report. *Water for Victoria* outlines the actions Victoria is taking across a range of water policy areas which, in a number of cases, align with the chapters and recommendations presented in the Commission's report. The feedback has been broken up by chapters from the report for ease of reference and where appropriate, specific recommendations are noted.

Chapter 3

As noted in the draft report, Victoria has legislation that requires an assessment to be made of any declines in resource availability, including an assessment of disproportionate impacts from any decline. Recommendation 3.1(c) differs from the Victorian legislation because it refers only to assessing the impact of climate change. It is worth noting that there are significant challenges in relation to implementing draft recommendation 3.1(c), because the ability of scientists to definitively attribute climate change as the cause of any recent dry climate period is very limited, given the influence of natural variability.

The statistics on Aboriginal disadvantage in Victoria are well documented and we see the impacts of this in our local communities. Victoria is currently working with Traditional Owners to build the case that access to water can contribute to improved economic and social outcomes for both Traditional Owners and Aboriginal Victorians. The \$4.7 million Aboriginal Water Program will implement local projects with Traditional Owners to identify Aboriginal values and objectives for water on Country. The Victorian Government is also investing \$5 million in developing a roadmap – a way forward for Traditional Owners and Aboriginal Victorians to access water for economic development. Aboriginal enterprises are 100 times more likely to employ Aboriginal people and contribute to improved employment, health and wellbeing for Aboriginal people. Access to water can contribute to financially sustainable Aboriginal businesses and economic self-determination for Aboriginal Victorians and Traditional Owners. The roadmap will include trials to explore various ways to support Aboriginal people to access water in ways that are culturally appropriate and meet their needs. The roadmap will also include funding for business cases to make the financial case for public or private finance and seed funding to support access to water entitlements.

Through the consultation with Traditional Owners about *Water for Victoria*, it was clear that Aboriginal communities are holistic in their view of cultural obligations on land and water. Therefore, Victoria's position is not to see economic development as a separate issue from the provision of water for cultural purposes and has committed to work with Aboriginal Victorians and Traditional Owners to improve access to water for this purpose. In their own words, Victoria's Traditional Owners have described their vision for water management in Victoria:

"We seek to have access to the consumptive and non-consumptive pools, to fulfil cultural responsibilities and provide for the cultural, spiritual, social and

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economic wellbeing of current and future generations – while at the same time promoting the conservation of water resources and delivering benefits to the wide Victorian Community.” (Joint Statement, Murray Lower Darling Indigenous Nations & Federation of Victorian Traditional Owner Corporations).

Chapter 4

In general, Victoria supports the Commission’s recommendation to maintain current trade reforms and improve arrangements to facilitate open and efficient markets.

Action 9.6 of *Water for Victoria* commits to ensuring current water trading rules in northern Victoria are appropriate and to work with the Murray-Darling Basin Authority (MDBA) to improve the transparency in applying trading rules in the southern connected system.

In broad terms, current operating arrangements (Statement of Obligations (System Management)) restrict use of the North-South Pipeline unless Melbourne’s total system storage levels fall below 30 per cent, ensuring the Victorian Desalination Project is used prior to the pipeline, and making allocation available for sale in northern markets. The government made a commitment to consider the feasibility of using the pipeline to provide water security to towns and communities in both directions, and it is an option we will continue to explore, as noted in *Water for Victoria*.

Action 9.4 in *Water for Victoria* commits to continuing to ensure water market information supports effective water markets by making water transactions simpler, quicker and cheaper for users to meet the expected levels of service by water market participants. Victoria will continue to improve water market systems. We will continue to work with other jurisdictions to improve the relevance and accessibility of current water markets reporting, this may include reviewing service standards for trade approvals which no longer reflect contemporary management.

The Victorian Water Register is the authoritative record of water entitlements in our state, facilitating transactions that underpin Victoria’s water markets. Ongoing maintenance and register development is critical to providing quality and timely water market information to water resource managers and the public, including trade price, trade volume, transaction time, water movement, entitlement information, allocation and use.

Chapter 5

Victoria is supportive of draft recommendation 5.1 relating to using environmental water to maximise environmental outcomes and where possible provide additional community outcomes. This is supported through Chapter 7 of *Water for Victoria* which outlines a number of actions to include recreational values in water and waterway planning, help communities to understand how to achieve their recreational objectives and support recreation at water storages through infrastructure and better information.

Victoria agrees in principle with draft recommendation 5.4 to disband The Living Murray program, conditional on an agreement by all jurisdictions to maintain program continuity and delivery of environmental water in a coordinated manner. This includes clarifying and agreeing on the source of program funding and who will bear costs associated with water storage and delivery, as we consider the current funding model is the most appropriate.

Chapter 6

In this section, the Commission addresses the issue of politicisation and government interference in water pricing. It quotes as an example of government interference in price setting, the 'Fairer Water Bills' policy in Victoria.

It should be noted that the 'Fairer Water Bills' initiative in Victoria was the result of a decision by the then Victorian Government to undertake a deep review of the efficiency and performance of its water corporations. This was undertaken separately and after the independent price review process undertaken by the Essential Services Commission had been completed and the commission had approved maximum prices. It was then a decision by the government to return additional efficiencies identified through the efficiency review to customers.

A second example of interference from Victoria is the 2012 Water Industry Regulatory Order required the Essential Services Commission to set prices in a way that 'minimise[s] the extent of any under or over recovery of revenue associated with the desalination plant'. It should be noted that this example is out of date and the clause is not included in the current 2014 Water Industry Regulatory Order which was made after an independent review of the effectiveness of the Victorian Economic Regulation Framework that year.

Chapter 7

The Commission's recommendation pertaining to grant funding for irrigation infrastructure (draft recommendation 7.3) does not align with current Victorian policy as outlined in *Water for Victoria*. The recommendation suggests that governments should not provide grant funding for irrigation infrastructure, or the part of infrastructure that is for the private benefit of irrigators. Action 4.2 in *Water for Victoria* outlines a number of principles for public investment in rural water infrastructure projects. These principles include assessment of long-term viability, net public benefit and value for money. Victoria will continue to examine investment in rural water infrastructure of all kinds in line with these principles.

Chapter 8

The commentary on social and economic impacts of water recovery in the Murray Darling Basin (section 8.4 and Appendix B.8) does not take into account the analysis completed earlier this year by Victoria. This report, *Social and Economic Impacts of Basin Plan in Northern Victoria (2017)*, shows that the social and economic impacts are real and are being felt across the southern connected basin.

Key findings of this report include:

- Participants in buybacks increased their reliance on purchasing on the allocation market from 0-12 per cent (2007/08) up to 52 per cent (2015/16).
- Basin irrigators are exposed to more risk and are likely to be less resilient during dry spells because of their increased reliance on purchasing allocation.
- The high level of Victorian High Reliability Water held by the Commonwealth is having a disproportionate impact on irrigators in dry years.
- There has been a 41 per cent reduction in long term average deliveries in the Goulburn Murray Irrigation District (GMID) (from 2000 GL in 2009 to average of 1200 GL in 2016).

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- The GMID is more impacted than other districts in Victoria due to the high number of dairy properties and will need to continue to find ways to reduce its asset base and cost to customers.
- In extreme drought, horticulture across Victoria, NSW and SA is now more exposed with demand likely to outstrip supply if water availability drops below 40 per cent of entitlement.

The full report can be accessed at <https://www.water.vic.gov.au/murray-darling-basin/social-and-economic-impacts-of-the-basin-plan-in-victoria>.

The Commission acknowledges that there will be instances where structural change occurs rapidly and has a significant adverse impact on communities, and therefore some form of government assistance may be warranted. Section 8.4 of the report references MDBA 2016 work that found water recovery has a greater effect on smaller, irrigation-dependent communities compared to larger more diverse communities. The appendix B8 also references a National Water Commission 2014 report that found water recovery programs had delivered positive social and economic outcomes for most irrigators and irrigation communities.

Conclusion

Victoria would be interested in participating in discussions with other jurisdictions about revising and renewing the NWI. Victoria is well placed to assist in identifying the areas for reinvigoration and outlining some of the options available to continue to enable Australia to be global leaders in water management.