



WATER SERVICES
ASSOCIATION OF AUSTRALIA



**WSAA submission to
Productivity Commission
Inquiry into National
Water Reform:
DRAFT REPORT**

March 2021



1. Introduction

WSAA is pleased to provide a submission in response to the Productivity Commission's (PC) draft report on National Water Reform

The Draft Report provides a comprehensive assessment of the progress of water reform and the challenges facing the urban water industry. It recognises that water is critical to the wellbeing of Australian communities, the economy and the environment. The Draft Report also acknowledges that the urban water industry is already responding to the challenges of climate change and population growth.

It is pleasing the PC has specifically called out urban amenity as a focus area of urban water services and we would like to see the language more consistent towards *liveability outcomes*. The COVID-19 pandemic has demonstrated the importance of green space and tree canopy for physical and mental health, and our own work with [Frontier Economics](#) showed a net benefit of up to \$94 per person, mostly mental health, from transitioning to a fully integrated water cycle. How many hospital beds or doctors visits or prescriptions could that save per annum in the economy? These are questions that must remain top of mind.

WSAA is pleased to see that the Draft Report calls for a renewed and modernised National Water Initiative (NWI) and to significantly enhance the urban water reform element to cover best-practice system planning, pricing and institutional arrangements, governance and regulation.

WSAA strongly supports key advice included in the Draft Report and in particular:

- the need for a new and modernised NWI, including an enhanced urban water element
- advancing the conversation on considering all options for drinking water sources, including the use of purified recycled water, which is becoming commonplace across the globe
- the need for more work to be done on a water security framework
- including a focus on climate change in the overarching and detailed objectives of the NWI
- recognising the interests of Aboriginal and Torres Strait Islander people in water resource management.

We believe there are some areas where the analysis in the Draft Report can be expanded to provide more specific guidance to governments or to expand the options under consideration.

These include:

- defining better and more robust governance architecture for a new NWI
- the role of incentives as a catalyst to national action and support for a new NWI
- further examining stormwater models for integrated water management
- clarifying the role of benchmarking to support the performance of the industry.

2. An important contribution to reform

We do not intend to restate in detail all the areas of agreement between the Draft Report and WSAA's original submission. However, we would like to draw attention to critical areas.

Nevertheless, we have attached the previous recommendations from our original submission. While there is good alignment with these in the Draft Report, we consider more of them could be reflected in the Final Report to be provided to the Federal Government.

Modernising the goal of the NWI

WSAA agrees with the Draft Renewal Advice in 3.1 to modernise the overarching goal of the NWI to reference adaption to climate change and recognise the important of water to Aboriginal and Torres Strait Islander people.

As outlined in our submission we support a framework for reporting on progress towards the goals outlined in the 2020 National Agreement on Closing the Gap, once agreed, and reporting progress towards institutional, legislative and regulatory reforms. It is clear that Draft Report and Renewal Advice has considered the 2020 National Agreement in relation to securing Aboriginal and Torres Strait Islander people's interests in water.

In relation to climate change, the Draft Report acknowledges that Australia and New Zealand will continue to experience ongoing changes to climate including more variable rainfall, more heat extremes and more frequent and intense storms. We agree and in March 2021 WSAA released the [urban water industry climate change position](#) which outlines the contributions of the urban water industry to meeting the challenges of climate change.

Key to the position is that the urban water industry *will achieve net zero greenhouse gas emissions by 2050*, and sooner where it aligns with customer expectations. The water industry is uniquely positioned to mitigate its impact on climate, respond and adapt to the impacts of a changing climate on the delivery of services, and improve the resilience of communities and the environment in adapting to a changing climate. The industry will continue to work together and collaborate with stakeholders to meet the challenges of a changing climate.

Modernising the overarching and detailed objectives of the NWI

WSAA agrees with the Draft Renewal Advice 3.2 and 3.3 to amend the overarching and detailed objectives of the NWI. WSAA has long advocated that while many of the clauses of the NWI have been met it has not been an effective vehicle for addressing current and future challenges for urban water and has not been the driving force for the advancement and success of the industry.

In relation to Draft Renewal Advice 3.3 (B) we recommend the following:

- Under 3. We strongly suggest that point (a) includes reference to integration with urban planning and other essential service infrastructure. This will align clearly with point (b) which we agree with.
- Under 4, 'cost reflective pricing of water services, *including storm water*, wherever possible...' Whilst we understand that it is implicit in the wording, we believe it needs to be explicitly called out. This recommendation has been supported by many stakeholders in the past and until it becomes business as usual we believe calling it out will be consistently required.

All options on the table

Of particular note, WSAA is pleased that the PC calls for all options to be on the table and that:

“Policy bans prohibit choices by imposing unnecessary restrictions, such as on purified recycled water for drinking (making non-potable recycled water more expensive due to the need for separate distribution systems). Such policy bans are rarely appropriate and, in general, should be removed.”

As the PC is aware, WSAA has long advocated that water security comes through diversity. In other words, having all options on the table for consideration, including purified recycled water alongside desalination, water efficiency, dams, water sharing through pipelines, and recycling for non-drinking purposes. We support the discussion on this issue in the Draft Report as it is only through investigating all options that the industry and community can be sure of identifying the best value approach to ensuring a resilient water supply. It is a positive step forward to explicitly mention these options, to put them on the industry and community’s radar as options that are becoming increasingly common around the world. WSAA’s research in recent years indicates that using terminology that people understand, is a very important part of helping communities to understand and support water supply options. WSAA uses the term ‘purified recycled water for drinking’ to explain that this option takes recycled water and purifies it further, to meet drinking water standards. It is not the same as recycled water used for irrigation or industry. The language can evolve as we better understand how communities prefer to describe their water sources and supply.

We would like to suggest a correction to some wording on page 25 of Supporting Paper F – Urban water services, which states:

‘Currently, policy bans constrain a fully integrated approach. Only Queensland and Western Australia allow recycled wastewater to augment drinking water supplies, by returning it to waterways that are drawn from as part of the drinking water distribution system...., despite national guidelines that allow for broader use of recycled water – the Australian Guidelines for Water Recycling: Managing Health and Environmental Risks, part of the National Water Quality Management Strategy....’

Though the other Australian states (apart from Queensland and Western Australia) do not have schemes in place for using purified recycled water as part of the drinking water supply, we do not believe it is correct to infer that it is ‘not allowed’. On the regulatory side, the national guidelines allow for this, as the Commission states. On the policy side, we are not aware of clear evidence of a policy ban in other states. The exception is Victoria, where a policy ban is generally acknowledged, and early this year, Infrastructure Victoria recommended in its Draft 30 Year Infrastructure Strategy, to consider all water supply sources, and identify and address barriers to recycled drinking water in the next ten years (p56 of the Draft 30-year Infrastructure Strategy). By contrast, in NSW, the Minister for Water, Property and Housing has made various public statements supporting the need for all options to be on the table in water planning.

Our research in recent years indicates that the barriers to using purified recycled water for drinking are often more perceived than actual. It is therefore worth correcting these statements in the Final Report, to avoid implying that policy bans exist where this is not confirmed, because the perception that there are barriers in place tends in itself to lead to inaction.

It would be more correct to say: ‘Policy bans can constrain a fully integrated approach. Only Queensland and Western Australia currently practise returning purified recycled water to waterways that are drawn from as part of the drinking water distribution system. National

guidelines that allow for broader use of recycled water – the Australian Guidelines for Water Recycling: Managing Health and Environmental Risks, part of the National Water Quality Management Strategy....’.

3. Areas for further analysis in the draft report

Against this strong support, we think the Draft Report's analysis could be developed further in several areas. We do not consider these areas to be controversial, indeed they build on well-established precedents and current trends within the industry. These areas are:

1. Defining better a robust architecture for a new NWI
2. Further examining stormwater models for integrated water management
3. Clarifying the role of benchmarking to support the performance of the industry
4. The role incentives play as a catalyst to national action and support for a new NWI.

Better governance architecture for a new NWI

There is a need for more detailed advice in relation to governance arrangements and options other than the National Water Reform Committee (NWRC) should be considered.

The Draft Report states:

“A strengthened architecture is needed as part of NWI renewal to ensure that leadership on national water policy is evident and effective, and that water sector participants and the broader community can have confidence in activity within this critical policy sphere.”

In relation to that architecture the Draft Report states:

“Ownership of the renewed NWI should sit with a body of a status that conveys to water sector participants and the broader community that governments see water, and reforms to ensure it is used to best effect, as important. That role is best played by water ministers.

Water ministers should come together periodically to oversee development of a renewed NWI, and to receive, consider and act upon advice that comes out of any periodic review of the new agreement.

The National Water Reform Committee should provide on-going collective oversight of the agreement, initiating policy advice and guidance, if the need arises, and commission 10-yearly reviews of the agreement.”

WSAA agrees that Water Ministers are key to any new architecture. However, the PC should provide more detailed advice than periodical meetings. More importantly, the Final Report should set out in more detail the formal arrangement to support Ministerial decision making.

The Draft Report accords the NWRC of COAG a strong place in the proposed governance framework (Draft NWI Renewal Advice 4.1). WSAA does not consider the NWRC, as currently constituted, provides an appropriate model. For example, as far as WSAA is aware the NWRC and Urban Water Sub Committee:

- does not undertake public engagement.
- has no permanent executive
- many stakeholders have not heard of it
- does not have a published terms of reference
- does not have a published work program
- has no mechanism to consult with the industry it purports to oversee
- no direct utility involvement or a mechanism to consult with utilities, including local government

- does not recognise the direct day to day role utilities have with customers and community – the great proportion of which are paying for a service without government subsidies.

While we recognise the clear role of government (Federal and State) in policy development, and that the NWRC may be suitable for internal discussions between governments, it does not provide a sufficiently robust governance model to deliver the elements of a new NWI.

Previously, delivery of the NWI was undertaken by a separate agency and this approach should not be ruled out. There is clearly a gap in the infrastructure planning space where Infrastructure Australia continually calls for a national water strategy and publishes a priority list.

However, at a minimum to be credible, oversight of the NWI would require:

- ideally an office independent of government, alternatively though less desirable, creating an ‘Office of Water’ within the relevant department with permanent staff resources
- publishing an annual workplan and NWI milestones
- integrating work of Infrastructure Australia and other national agencies including National Indigenous Australian agency to link policy work of government to funding and management of water infrastructure and services
- oversight of the National Performance Report and other benchmarking programs of the future
- undertaking an ongoing industry improvement program including research that could be similar to the highly successful ‘Raising National Water Standards program’
- funding and managing projects, including for example nationally significant issues including quantifying the benefits of liveability outcomes to embed in regulatory processes, a nationally consistent approach to improving remote and Indigenous water services, facilitating the role of urban water in the national circular economy and so on.
- building an engagement model which could include an advisory council comprising utilities and other stakeholders.

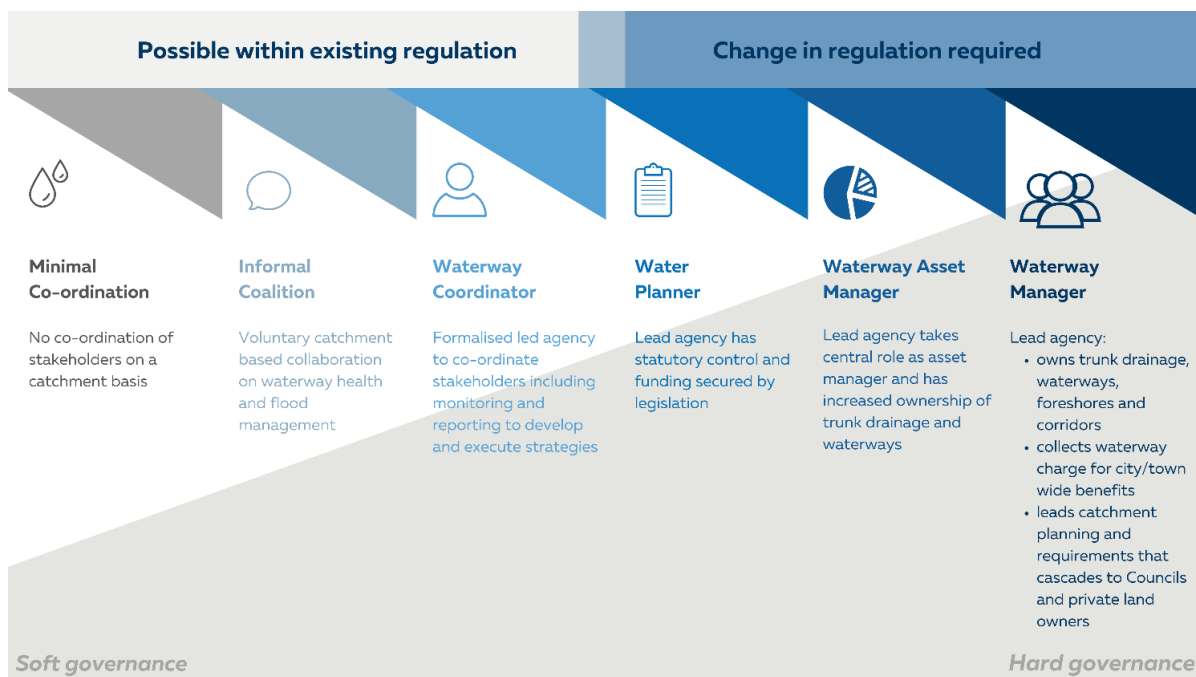
Stormwater models for integrated water management

WSAA considers that the Final Report should explore potential models for incorporating stormwater into the water cycle. The Draft Report endorses collaboration but effectively ruled out further change:

‘As highlighted in the Commission’s 2017 inquiry, institutional reform to fully integrate all elements of urban planning (including water) within a single entity is likely to be costly, risky and may not deliver the outcomes sought (PC 2017a, pp. 193–194). Facilitating collaboration will remain key in the future, with the specific mechanisms varying by context.’

The Draft Report does not recognise the possibility of shifting boundaries for better outcomes and the benefits that different institutional solutions could provide. We see a number of different models in operation around the country (eg Melbourne Water and City West Water through Greening The West and Greening the Pipeline where the utility takes the lead to ensure advancement) and success through collaboration only remains ad hoc.

As an example, the framework below outlines the different possibilities and what can be achieved depending on how waterways are managed. While informal collaboration is possible and has seen success, wider benefits are possible with a single waterway manager.



Source: based on discussions with Sydney Water (2021)

We recommend that the PC specifically support different approaches to achieving the outcomes available from a truly integrated water cycle. In WSAA’s view, collaboration brings people to the table but the ‘enable’ function comes through the right institutional and regulatory functions and these are largely lacking in Australia at the moment.

Strong consideration must be given to the development of single Waterway Managers to effectively and efficiently lead and facilitate urban community benefits.

Whilst City Deals have been arranged, and showed some promise in bringing three levels of government together, the longevity of support appears – at least anecdotally – to be waning and cannot be relied upon to achieve the changes and improvements required. New Zealand’s current urban water reform progress refers to Three Waters – including stormwater and is a process that should be monitored.

Opportunities to reframe the future

Linked to better integrated water management is the opportunities for water businesses to embrace the circular economy. IWM planning provides water utilities with an approach to optimising water cycle management, liveability and the circular economy.

Water utilities are moving towards a vision of integrated resource recovery. The long-standing, linear approach of extracting freshwater, treating it, using it, collecting it and disposing of it is no longer viable. This approach does not easily allow for realisation of value. This is particularly true in Australia, where many urban centres are vulnerable to variable and declining water resources and the disposal of additional biosolids to landfill or to the oceans is no longer acceptable.

Water utilities can become agents for the circular economy and have an opportunity to play an important role as resource stewards. There are opportunities for water utilities to work with a

broad range of stakeholders and customers to transform the way the total flow of energy and resources is managed and optimised. Since our submission to the PC in 2020 we have released important work relating to the circular economy:

- [Transitioning the water industry with the circular economy](#): A paper to guide water utilities to unlock the circular economy to better manage resources, make and use products and to regenerate natural systems. The paper outlines the key building blocks required for a utility to transition to a circular economy as well as the value proposition and the many benefits to customers and the broader community, the environment and to utilities themselves.
- [Draft Action Plan - Transitioning the water industry with the circular economy](#): includes four key strategic directions and actions:
 - Building circular economy knowledge
 - Establishing new business models
 - Measurement of the circular economy
 - Institutional transitioning.

Understanding the role of benchmarking

The Draft Report outlines the important role performance data plays in driving improvements across the industry. It calls for a revised financial return indicator.

The National Performance Report (NPR), containing 166 urban water indicators reported on by 85 utilities provides a case study in the benefits of a national approach. WSAA itself undertakes detailed benchmarking, but it would not be possible for WSAA to coordinate such a comprehensive collection across such a range of utilities. Only through national coordination can such a collection take place.

WSAA agrees with the importance of accurate performance data for the urban water industry. However, like other aspects of the NWI, the NPR is badly in need of modernisation and revision. The Bureau of Meteorology has commenced a year-long review of the indicators set, which is strongly supported by WSAA, utilities and other stakeholders. WSAA's initial submission to the Review on what indicators should be kept, which should be revised and which should be deleted can be found [here](#). As set out in the submission, the financial indicators and customer indicators are two areas that require significant amendment.

With this background, we suggest the Final Report be expanded to recognise the fundamental review of the indicators underway. Certainly, better financial indicators are required, but this is wider than a single rate of return indicator.

WSAA also considers that to maintain the NPR as an up-to-date data set, continual evolution will be required. Consequently, we recommend that the NPR and its governance should be important elements of a new NWI.

Performance comparisons vs benchmarking

We also want to draw a subtle but important distinction on the role of the NPR to provide performance comparisons rather than benchmarks. Benchmarking implies there is a right level of performance that should be aimed for. We do not consider that the NPR fulfils this role. Rather, most of the indicators are high level. Reporting performance across utilities promotes understanding of the similarities and differences across Australia and triggers further analysis on performance improvement.

While this may seem a subtle distinction, it is the same one made by the PC in its Report on Government Services. In releasing the 2021 Report the website states:

“The terms ‘comparative performance reporting’ and ‘benchmarking’ are sometimes used interchangeably. However, benchmarking can have a particular connotation of measuring performance against a predetermined standard. The Report can be considered as a form of results or process benchmarking, but the Report does not generally establish best practice benchmarks. However, governments can use the information in the Report to identify appropriate benchmarks.

The role of incentives in reform

The Draft Report touches on the role of incentives to encourage national reform efforts, and suggests that Commonwealth spending on water infrastructure forms an incentive for states to collaborate on a new NWI.

WSAA recognises that there may be a political dimension to provision of incentives which the PC may not want to involve itself directly.

However, we consider the Final Report could outline the economic rationale for an incentive framework in the NWI. It is the economic framework that underpinned the incentive frameworks in previous rounds of national reform. Previously, it is the case that the Commonwealth government benefited from reform through greater productivity, GDP growth and ultimately tax collections, yet many of the initial actions resided with State governments. Payments to the States created alignment in beneficiaries from reform.

WSAA considers the same situation applies in the case of a new NWI. WSAA believes there is a significant prize from national reform. The PC has set out the case for how reform can improve the productivity of our cities and regions. Cities are the engine room of the economy. WSAA’s own work illustrates the importance of water to the amenity and liveability of communities, including the strong mental health benefits of green space.

All levels of governments have a strong interest in improving regional water services.

Taken together WSAA considers this provides a strong rationale for an incentives package to share the benefits of reform across all levels of government.

Specific recommendations for Chapter 11 – Urban Water Services

In addition to our full set of recommendations attached, we suggest the following issues are considered in this Chapter.

- 1) We consider the Final Report could outline the opportunities for urban water into the future. We recognise there is a fine line between maintaining a focus on ‘core business, rock solid’ when it comes to water and sanitation services, however there has been significant change in community expectations around managing climate change mitigation and adaptation and the circular economy. Water utilities around the world have extensively investigated and are now investing in renewable energy production through better waste management (eg the [Food Waste to Energy facility](#) through Yarra Valley Water) and hydrogen production (eg [Water Corporation WA](#), through the Hazer process). Whilst there is nothing under Draft Renewal Advice 11.1 that specifically precludes these circular economy activities, nevertheless there is a need to include contemporary wording in a clause to encourage the broader water sector to ‘break out of the silo’ and explore its role in partnering to deliver sustainable,

productive and liveable urban communities beyond what is *currently* considered core business.

- 2) We strongly agree with the PC section 11.5 which aligns what WSAA has been saying for over a decade. We commend the Draft Renewal Advice 11.4 regarding stormwater pricing and developer charges which are currently a patch work across the country.
- 3) The urban water industry takes its commitment to the Sustainable Development Goals seriously. Whilst we acknowledge that a renewed NWI would most likely outlive the 2030 timeframe of the SDGs, we recommend that under Draft Renewal Advice 11.5 under the last dot point, words are included such as ‘underpin regular assessments of progress of the National Water initiative implementation and other Federal, State and water utility supported initiatives including the commitment to the Sustainable Development Goals’.
- 4) We agree with section 11.6, though urge caution in the development of the ‘basic level of service.’ The intent and principles are correct, though the process, wording and imagery can be misunderstood (akin to earlier proposals such as Toowoomba regarding purified recycled water) and can set an engagement program back significantly. We agree with the PC approach on the Community Service Obligation process and approach which is the most transparent and sustainable way forward.
- 5) Under Draft Renewal Advice section 11.8 for water quality in remote and Indigenous communities, we would add that this section should be expanded beyond water quality and service outcomes to include programs to improve those outcomes and also include infrastructure provision. There is currently a paucity of data and apart from some exceptions a general opaqueness to the approach of infrastructure funding and prioritisation, delivery and management, skills development, monitoring and improvement. WSAA has recently started a project to develop a national picture in this area and we would be keen to share and collaborate in the short term to maximise leverage of the findings.

Contact

WSAA welcomes the opportunity to discuss this submission further.

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Attachment 1: WSAA Recommendations



A new National Water Initiative

Recommendation 1

All states and territories commit to a new National Water Initiative (NWI) to assist the urban water sector to deliver water security and healthy, liveable communities for its customers, in the face of challenges including population growth and climate change.

- a. That a Stakeholder Reference Committee or similar comprising water utilities and other key stakeholders across urban and rural water be established to lead the development of the new NWI.
- b. That the Sustainable Development Goals be considered in the intended outcomes of the new NWI.



Planning Australia's water security

Recommendation 2

That the new NWI include the development of a National Water Security Framework for defining and measuring water security to be implemented and reported on nationally.

Recommendation 3

That the new NWI includes a commitment to achieve the optimal mix of water supply options across Australia.

- a. It is necessary for utilities and policy makers to discuss all available options with their customers and communities, including options where there are implicit policy bans such as purified recycled water for drinking and dams.



Shaping cities to create liveable communities

Recommendation 4

That the Australian Government, together with State, Territory and local governments, in committing to productive and liveable cities through City Deals, includes urban water security and liveability as principal outcomes.

- a. To achieve this urban water utilities should be included as a partner in the City Deals framework.

Recommendation 5

That the new NWI recognise the important contribution water makes to the health and wellbeing and productivity of Australia's cities and towns.

- a. That the new NWI adopt principles for governance and water planning that reflect the importance of water to liveability and the role of urban water in contributing to liveability outcomes.
- b. That the new NWI should adopt principles for integrated urban water management.
- c. Each jurisdiction should commit to water planning for cities, including incorporating water into land use planning policies.

Recommendation 6

That stormwater be fully incorporated into the new NWI, reflecting that little progress that has been made in managing this important and valuable area. Consideration should be given to the development of single waterway managers with responsibilities to include stormwater in the water security and liveability outcomes being sought.

Recommendation 7

That Governments should commit to allocate funding, resources and accountability to liveability outcomes in the same way as other social infrastructure such as health and education.



Financial resilience and affordability

Recommendation 8

That the new NWI recognise a financially resilient water sector is critical to achieving other elements in the NWI including delivering water security and liveability outcomes for customers and communities.

Recommendation 9

To this end jurisdictions should recommit to the corporatisation model as the preferred way to deliver long term outcomes for customers. Key elements of the corporatisation model are:

- a. Governments, as shareholders, should establish long term commercial targets that enable urban water utilities to continue to invest on behalf of the community.
- b. Flexible mechanisms to protect the long-term interests of customers including managing affordability, encouraging community engagement and providing incentives for efficiency.
- c. Where this is implemented through formal economic regulation, there should be minimum standards that protect the long-term interests of customers.



Delivery in regional and remote areas & recognising Indigenous water values

Recommendation 10

That the new NWI includes a commitment to achieve affordable levels of services for water and wastewater in regional and remote communities. Key elements are:

- a. Sustainable annual funding to maintain service levels is necessary in regional and remote areas rather than ad hoc capital grants.
- b. When investing in regional and remote infrastructure projects, governments should apply regional scale planning combined with building capacity and ensure outcomes are linked to the funding.
- c. That the new NWI should include a framework for reporting on progress toward goals to provide safe and reliable drinking water to remote Indigenous communities. The Closing the Gap Report (2020) identified the need to develop goals for urban water services for Indigenous communities in the next 12 months.

Recommendation 11

That the new NWI include a commitment for state, territory, local governments and Indigenous communities to clarify roles and responsibilities for the delivery of water and wastewater services to remote and Indigenous communities.

- a. When investing in remote infrastructure projects, responsible agencies should apply transparent prioritisation principles.

Recommendation 12

That the new NWI includes a commitment to the cultural values of water and inclusion of Indigenous Australians in decision-making about water.

- a. That the Productivity Commission should consult with Indigenous communities to determine the form of this commitment.



Commitment to research and innovation

Recommendation 13

That a Research and Innovation Strategy be developed to achieve the outcomes specific for urban water in the new NWI. The Strategy should give consideration to:

- a. roles and responsibility of governments, government agencies including the Bureau of Meteorology, research institutions, utilities, technology providers and other stakeholders
- b. ongoing review of priorities and investment guidance
- c. implementation and commercialisation of Australia's water planning and management (including but not limited to technical delivery of services, customer and community engagement, water resource planning through climate change).

Recommendation 14

That relevant Research, Development and Innovation stakeholders (including but not limited to: Australian and State governments, water utilities, research institutions, science and technology providers and customer and community representatives) be engaged through a new NWI to determine a sustainable, consistent and transparent funding target to enable the urban water industry to achieve water security and liveability outcomes through leading science and data analytics. Given the benefits of world class water services accrue economy wide, it is expected that the Australian Government would provide significant and ongoing research and innovation funding.

- a. Given the room for growth to implement and commercialise Australia's expertise in the end to end service provision of water management and services, the Australian Government should commit to an Annual Innovation Fund as part of its overall investment.



A national approach

Recommendation 15 - Incentives framework, financial and non-financial

That the new NWI recognise that the Australian Government is the beneficiary of water enabled productive and liveable communities while states are responsible for delivery.

- a. Consistent with past reform efforts, the Australian Government should provide incentives, financial and otherwise as a catalyst to deliver agreed milestones.

Recommendation 16 - National reporting

That all jurisdictions should commit to redeveloping a future focused national urban water dataset recognising the emphasis of the objectives in the new NWI including customer, liveability and water security outcomes.

Recommendation 17 - Mechanism to oversee commitments, an incentives framework and reporting

That the Australian Government, together with State Governments establish a new independent agency or mechanism to oversee both urban and rural water reform.

- a. The new independent agency or mechanism would assist with the effective implementation of the new NWI including overseeing national reporting and any incentives framework and developing and implementing a National Water Security Framework.