

SUBMISSION BY THE NATIONAL WATER GRID AUTHORITY

NATIONAL WATER REFORM – PRODUCTIVITY COMMISSION DRAFT INQUIRY REPORT MARCH 2021

The National Water Grid Authority's (NWGA) welcomes the opportunity to provide comment on the Productivity Commission's (the Commission) *National Water Reform 2020 Draft Report*, in particular the Commission's observations at Chapter 13, *Government investment in major water infrastructure*.

There are three areas that the NWGA would like to draw the Commission's attention to:

The establishment of the NWGA represents a new approach to investment

The Australian Government recognised an opportunity to refine its approach to water infrastructure decision-making when it established the NWGA in October 2019 and further, when it endorsed the NWGA's new *National Water Infrastructure Investment Policy Framework* (the Investment Framework) in October 2020.

The Australian Government holds a discretionary role in investment in major water infrastructure and consequently established the NWGA to improve regional water security and reliability, with the specific purpose of delivering outcomes for agriculture and primary industry.

The Investment Framework recognises the central role of state and territory governments

The Investment Framework acknowledges that state and territory governments are central to water infrastructure decisions by virtue of their responsibilities for regulation, planning, management and allocation of water resources, including water infrastructure development and maintenance. This is at the core of the Framework's approach.

The NWGA partners with state and territory governments by co-investing, and through its activities develop a shared understanding of regional priorities in the context of the broader planning, so as to inform long-term investment decisions. State and territory governments, however, are ultimately responsible for project selection.

The NWGA recognises that effective infrastructure investments enable regions to make a strong contribution to a diverse and resilient national economy.

Consideration of non-infrastructure options are integral

The NWGA notes that the Commission proposes a new element under a renewed National Water Initiative that establishes a commitment to considering non-infrastructure options, and the economic, social and environmental impacts of a proposal.

While the NWGA is responsible for Australian Government funding of water infrastructure, the NWGA agrees that infrastructure will not always be the most appropriate solution for delivering water security. Indeed, if appropriate pricing strategies are in place, it would be usual for states and territories to pursue efficiency measures ahead of new capacity, all things being equal.

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This is where the planning stages are important. Strategic business cases, options and feasibility studies and even environmental impact statements should all address the full range of plausible alternatives. The NWGA can make a real contribution through its funding of studies in business cases – either in their entirety, or co-funded by the state.

However, it needs to be recognised that the NGWA was established as a funder of infrastructure, noting that other non-infrastructure funding at the Commonwealth level has typically been applied through the now Department of Agriculture, Water and Environment. That is, only when a state has identified that an infrastructure solution is the preferred way forward does the NWGA become involved in advice on capital investment.

The Commission might ask whether the mere existence of the National Water Infrastructure Development Fund will generate a distorted interest in infrastructure solutions. The NWGA believes it will not, for the following reasons:

- The Commonwealth will fund up to 50 per cent of the capital costs, meaning that states will generally need to fund or guarantee the remainder;
- They are also responsible for the lifecycle costs, which can be considerable.
- As such, it is our view that states would not preference solutions that would result in unjustified capital expenditure.

The new Framework includes a set of guiding principles that address many of the Commission's observations, by requiring proposals to: demonstrate a public benefit, have strong state support including a funding contribution, consider economic, social and environmental impacts, align with National Water Initiative's principles, including appropriate cost recovery, and consider whether non-infrastructure solutions have been explored adequately.

In developing the Investment Framework, the NWGA notes that it consulted with state and territory officials and with Infrastructure Australia to ensure consistency in approach and priorities.

Finally, thank you for the opportunity to make a submission to the draft report. The NWGA acknowledges the importance of ensuring an economic lens is applied to the assessment of water infrastructure proposals as the Investment Framework itself identifies. While a cost-benefit analysis is essential, it is not sufficient alone to make investment decisions and risks becoming overly relied upon – particularly where the discount rate used is often no longer aligned well with today's cost of capital.

The Commission also requested comments on a table of water infrastructure investments in the *Assessment of National Water Initiative implementation progress (2017-2020)* report. Comments follow in the Attachment.

Matters of detail

The Commission requested comments on Table 3.7, on page 106 of the *Assessment of National Water Initiative implementation progress (2017-2020)* report, which makes observations on major Government investments in water infrastructure since 2017.

The NWGA notes that aside from the Commission's observations in chapter 13, this table indicates significant compliance with the National Water Initiative and with the requirement to assess the costs and benefits for those investments listed.

In regards to the Commission's request:

- The table indicates that it is unknown whether the Wyangala and Dungowan projects have been subject to independent scrutiny or assessment of NWI compliance.
 - Business cases for both projects are presently underway. This will enable both governments to assess the projects against the NWI principles and to refer the projects to assessment bodies such as Infrastructure Australia and or Infrastructure NSW, once the business cases are complete.
 - The business cases will also enable assessment against non-infrastructure or alternative solutions.
 - The table could more accurately note that these aspects referred to above are yet to be determined.
- Table 3.7 also incorrectly states the Mareeba Dimbulah Water Supply Scheme and the Willunga Basin Water Expansion projects were funded solely by the Australian Government. The NWGA notes that both projects were co-funded with state government partners. The funding details are on the NWGA's website.
 - The Mareeba Dimbulah Project co-contribution through Queensland is \$16.6 million, with an Australian Government contribution of \$11.5 million.
 - The project that the Commission refers to as "Willunga Basin Water Expansion" is referred by the Australian Government and the State Government for its respective investments as the "McLaren Vale Treated Water Storage Project". The Australian Government contributed \$2.5 million with other funding partners contributing \$4.9 million.