



Australian Government
Infrastructure Australia

18 May 2011

Urban Water Inquiry
Productivity Commission
LB 2 Collins Street East
MELBOURNE VIC 3165

Dear Commissioners,

Productivity Commission Inquiry: Australia's Urban Water Sector

I welcome the Commission's draft report as a most important part in building the case for reform in the urban water sector and in building a constituency for its implementation. I am pleased to submit comments in my statutory capacity as the National Infrastructure Coordinator in relation to its findings and recommendations.

Subsequent to its initial submission to the Inquiry, Infrastructure Australia has received numerous submissions in response to its Regional Towns Water Quality and Security report. We have also consulted with a range of stakeholders including local government water utilities, health regulators, trade unions and water industry associations. This interaction has been useful in further developing our thinking on reform and the comments on your draft report reflect this development.

The coincidence of the Productivity Commission's Inquiry and the reviews by Infrastructure Australia and the National Water Commission has provided a rare opportunity for different perspectives to be brought to bear on the problems in the urban water sector at the same time.

To my reading of the draft report, the majority of its findings and recommendations are consistent with the findings and recommendations in the recent reports commissioned by Infrastructure Australia: Urban Water Security (PWC) and Regional Towns' Water Quality and Security (Aecom). There is also a strong correlation between the draft report and the National Water Commission's recent report: Urban Water in Australia: future directions.

It is significant that, despite three largely independent review processes and approaches, a clear and strong case for reform has emerged. In terms of regional towns, it is also significant that the findings and recommendations are consistent with those of the 2008 Armstrong and Gellatly inquiry into non-metropolitan urban water services in NSW.

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There appears to be different views on the most appropriate approach to price regulation in the three reports. The Commission, in its proposal for a move away from price setting, has introduced a quite challenging line of thought, which is welcome. This proposal deserves in-depth consideration, but should not be seen as evidence of fundamental differences in terms of the need for reform or the most appropriate directions.

And while there is a high level of consistency in the proposed reforms, there are differing views on how to promote implementation. Unless these reforms are implemented, the various reviews and reports will have been largely ineffective. Implementation then, rather than the direction, is probably the key issue for the urban water sector in the near to medium term.

It is in the area of implementation that the Commission has introduced another challenging line of thought. It is that jurisdictions do not necessarily need either a national agreement, or incentives, to implement reforms that would clearly provide significant net benefits. While this position is difficult to argue against on an economic efficiency basis, history – even in the water sector - is replete with examples where obviously beneficial reforms are either ignored or implemented in a compromised fashion. In order to increase the likelihood of implementation, there would appear to be benefit in getting commitment to these reforms at the Council of Australian Governments and for the Australian Government to provide some incentives.

The attachment reflects the structure of the Commission's draft report and provides comments on findings and recommendations. I trust that they are useful in developing your thinking, in providing new perspectives and in finalising your report.

Yours sincerely

Michael Deegan
National Infrastructure Coordinator