Reforms to the Australian Water Resource Sector

A Work in Progress

With Productivity Commission hearings being held around the country in October, we summarise the main findings of its comprehensive draft report on water reform in Australia

The Productivity Commission released its draft report, National Water Reform, providing a timely opportunity to reflect on the water sector in Australia, its recent journey and what now confronts and awaits it. The current inquiry, due for completion by year end, is investigating the progress with the reform the water resources sector, with an emphasis on how governments have performed in meeting their agreed obligations.

The draft report presents a comprehensive stocktake of largely successful, though complex, reforms across most of Australia, highlighting the significance of getting the resource allocation issues right for a country where the challenges of sharing a usually, but not always, limited water supply across competing users has never been easy.

The reform task covered a complex suite of natural resource management, environment policy and all manner of economic considerations, not the least of which was the need to get incentives right through

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water pricing and decision-making for building new water infrastructure. These were overlaid with a mire of public policy and political complications, in a sector where governments – at all three levels – have variously played dominant roles (and probably most significantly at a State level), including as the major owners and operators of large-scale water infrastructure around the country. Water policy had also been used as a means for some governments to meet broader non-water related economic development and other politically-tinged outcomes, such as water infrastructure construction in some regions.

The backdrop to the reform task could not be underestimated. What the Productivity Commission found was, despite challenges around the breadth and political risks attached to the reforms, the progress to date has generally been good. But more needs to be done and the sector – and particularly the governments that regulate and oversee it – need to both evolve and be ahead of new challenges that have emerged since the framers of the current suite of water reforms drafted the current agenda.

What the journey has entailed so far

Australia's most significant water reforms commenced late last century and have been dominated by two related reform agendas, agreed by the Australian, State and Territory governments.

Prior to that time, the sector paid what seems, by today's standards, to be scant attention to:

- how and how much water should be allocated within catchments, including for environmental protection;
- how and how much new water infrastructure should be built;
- how and how much should be charged for new and existing water services; and
- who was best equipped to make these decisions and were they subject to appropriate incentives, transparency and governance.

This approach, whilst successful in stimulating growth in many regions, had associated environmental and economic side-effects. The former varied in their distribution and severity, with the most publicised including the management and sustainability of the Murray Darling Basin. The economic downsides were also highly variable, but centred around a lack of detailed justification for new infrastructure investments and inappropriate pricing signals for water users.

The first comprehensive national approach to water reform commenced in the mid-1990s with the COAG Water Reform Framework and National Competition Policy agreements. Significantly, in terms of incentivising reform implementation by the States and Territories, these governments' substantial financial incentive payments from the Australian Government became conditional upon, amongst other things, the successful implementation of the specified water reforms. A new independent adjudicator of reform progress against pre-determined milestones, was also established in the form of the National Competition Council.

This initial COAG Framework codified an ambitious agenda aimed at improvements in several key areas of water policy development and implementation, including:

- clarifying water rights and developing water trading;
- providing water for the environment, as well as irrigation, industry and other uses; and
- improved the ongoing provision of water services through reforms to pricing and many of the institutions that provided the water services and made the water allocations.

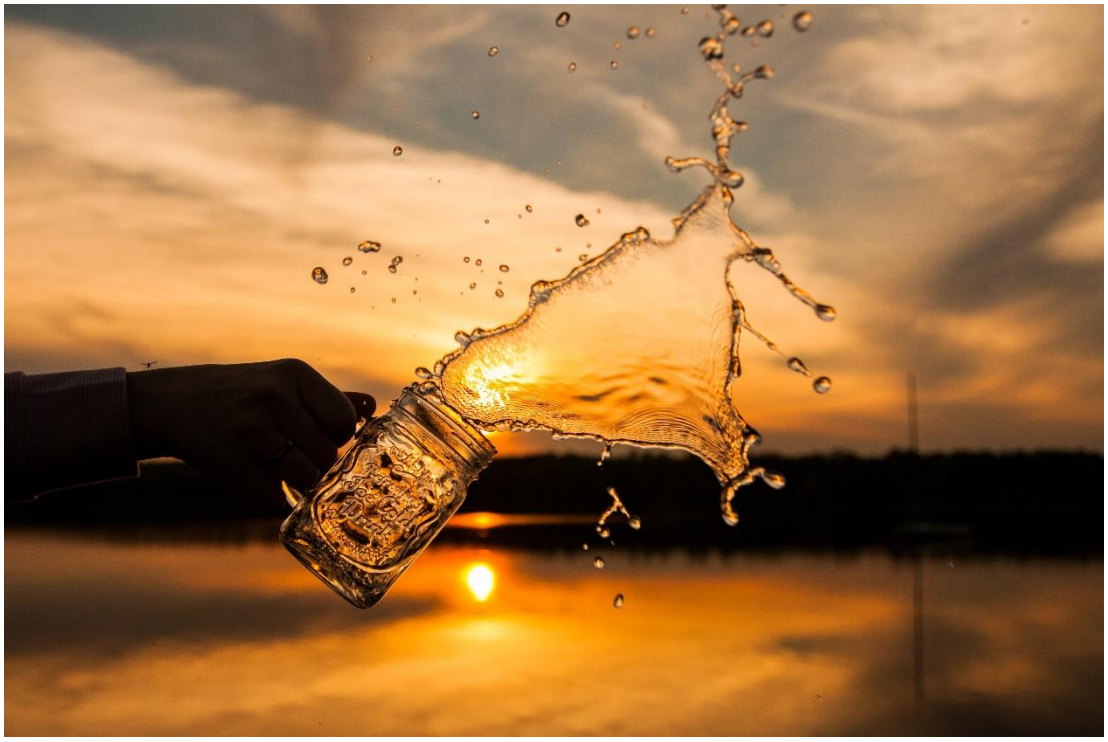
The successes from, and identified residual challenges to, the mid 1990 reform agenda formed much of the basis for the 2004 National Water Initiative (NWI) which was, again, an agreement between the Australian, State and Territory governments. The NWI was also premised on improving water resource management practices across the country, as well improving water pricing and governance and information sharing within the water sector. In this instance, a new body, the National Water Commission, was established to assess progress, although the reforms were not coupled to sizable Australian government financial incentives. (In 2015 the NWC was abolished, with responsibility for further assessment of reform progress transferred to the Productivity Commission).

What the sector looks like now

The Productivity Commission has concluded that Australia's water resources are now generally well-managed, albeit with a need that may be greater than other countries due to our widely variable climate.

The benefits of the reforms have been found to be large and widespread, as summarised below against the eight NWI key reform areas. Water is now a more valuable asset, which can generally be traded to users to whom it has the highest value and prices are mostly set to incentivise its best use. Environmental water needs are now also better met and water planning frameworks have improved mechanisms to share water between consumers and the environment. Institutional and pricing reforms, including the use of independent economic regulators, have built on the earlier outcomes from the 1990s COAG reforms and have increased the transparency of investment decisions and promoted more efficient pricing.

NWI Reform Requirement	Progress
Water access entitlements and planning frameworks	Most jurisdictions now have statutory-based, clear and secure long-term water rights for consumptive uses
Water markets and trading	Water markets have been established that have allowed water to be traded to higher value uses
Best practice water pricing and institutional arrangements	Most urban service providers are pricing at required levels. Economic regulation is appropriately used for pricing or revenue purposes for major urban water suppliers across much of the country, but WA, the NT, QLD and parts of regional NSW are exceptions. Cost-reflective pricing is mostly applied for existing irrigation infrastructure, but new irrigation infrastructure is sometimes underpriced and economic regulation not fully utilised in QLD, Tasmania and WA
Integrated management of water for environmental and other public benefit outcomes	Improved provisions of water for the environment and progress made on rebalancing overallocated systems
Water resource accounting	Water metering, accounting and compliance systems implemented
Urban water reform	Water reuse, water use efficiency, water sensitive urban design and innovation have improved, along with actions to address water quality
Knowledge and capacity building	Advances in knowledge and capacity building
Community partnerships and adjustment	Improved stakeholder engagement and consultation when developing and reviewing water plans



What still needs to be done?

Along with assessing the current reform implementation shortcomings, the Commission also assessed future challenges which will have implications for water management; some of which have become more apparent since the drafting of the NWI. These include population growth and urbanisation, climate change and changing community expectations. The Commission partly attributes the latter to the Millennium Drought, which highlighted the criticality of water to many urban and rural communities across Australia.

The draft report identifies scope to further improve the water sectors' effectiveness and efficiency. It broadly proposes changes in three groupings, which are summarised in the tables below:

- where there is unfinished business from implementing the current NWI;
- where the NWI requires changes to its current policy settings to deal with issues of more contemporary concern than existed at the time of its drafting; and
- where new areas of priority should be incorporated into a new national water reform agenda.

Unfinished business from current NWI	
Water entitlements	The WA and NT water entitlement regimes should be modernised
Economic regulation	Jurisdictions should improve economic regulation for the urban water sector, including in south-east Queensland and the NT for retailer-distributors, and additional capacity be given to regulators to automatically preview pricing in WA and for bulk water pricing in south-east Queensland
Regional water utilities' performance	Performance improvements are needed for regional urban water utilities where many small regional service providers can have difficulties in providing adequate and affordable services
Government grant funding	NSW and QLD have provided poorly targeted grant funding assistance with a bias toward towards capital projects
Engagement of Indigenous people	Governments should ensure better engagement of Indigenous people in water planning

Revision needed to existing policy settings	
Arrangements for extractive industries	More clarity is needed on the application of NWI principles to extractive industries (including mining); for example, there are instances where alternative water rights arrangements for extractive industries exist outside the water entitlement and planning frameworks, which could impact on the supply to other water users and the environment
Incorporating alternative water sources	Water entitlement frameworks should be broad enough to include recycled water and storm water supply options, including to facilitate their use in managed aquifer replenishment and streamflow enhancement
Developing contemporary water entitlement and planning frameworks	Planning frameworks should regularly assess the impact of climate change and include a means to re-examine the objectives of the water allocation plans
More fully recognising the water requirements of Indigenous people	Further work is required to recognise the water requirements of Indigenous people in water entitlement and planning frameworks, including distinguishing between the provision of water for cultural purposes and for economic development
Removing remaining barriers to trade	State and Territory governments should continue to remove trade rules, policies and other barriers that prevent water being traded or transferred between the irrigation and urban sectors
Better targeting adjustment assistance	Where governments consider there are significant and rapid adjustment issues affecting communities due to water reform, the response should avoid industry assistance and subsidies and consider all the factors impacting on the community; i.e. not just water reform

Future reform priorities	
Making urban water management more robust and responsive	Jurisdictions should improve major urban supply augmentation planning and enhance regulatory frameworks to remove obstacles to private sector investment. More flexible pricing to achieve greater efficiency in balancing water supply and demand should also be considered, along with more outcomes-focused approaches to environmental regulation and more innovative approaches to service delivery arrangements
Improving environmental management	Further improvements are required in environmental water management arrangements, including better integration with waterway management and strengthened institutional and governance
Delivering new irrigation infrastructure that is viable and sustainable	Against a backdrop of large Australian (as well as some State and Territory) government grants and loans availability for irrigation infrastructure projects, the priority should be to ensure the environmental sustainability and financial viability (including irrigators' preparedness to pay) of new infrastructure before any government resources are committed for construction. Caution should also be exercised in providing loan finance for new irrigation infrastructure where the private sector is unwilling to accept the same risks

Concluding Remarks

The national water reforms have been ambitious and generally successful. However, the reform journey does not end here.

The Commission concludes that there is a need to continue water reform efforts, as "there is still considerable scope to improve the efficiency, productivity and environmental sustainability of Australia's water use and prepare for an uncertain future".

It recommends that a new nationally-agreed NWI be in place within three years, so that the reform benefits of recent decades continue. This is premised on the various governments not only being prepared to refresh and renegotiate the agreement, but more significantly, to implement the spirit and intent of a new agreement, as the water sector changes and evolves further in to the future.

This will again be challenging for governments, water users and other stakeholders involved and impacted, as has been the case over the past couple of decades. But these are reforms that can't be ignored in a land of droughts and flooding rains.

For more information

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