



**Productivity Commission
Inquiry into progress with the
reform of Australia's water
resources sector**

VICWATER SUBMISSION

OCTOBER 2017



VicWater

*Collaborating for Extraordinary
Industry Performance*

VicWater submission on
National Water Reform

October 2017

Thank you for the opportunity to respond to the draft National Water Reform Report and recommendations. VicWater is the peak body of the Victorian water industry with its membership constituted of Victoria's 19 statutory water corporations. Those corporations are responsible for the provision of urban water and wastewater services, rural water supply including irrigation and related drainage services. VicWater also has associate members responsible for catchment and environmental water management. This submission follows on from the VicWater response to the Productivity Commission's discussion paper in April 2017.

VicWater has sought member feedback on the draft National Water Reform Report and recommendations. Although the views expressed herein represent a majority position, individual Victorian water corporations may express slightly differing views, or areas of emphasis.

- ◆ VicWater supports robust processes to fully and transparently consider all available supply augmentation options and the inclusion of all traditional and alternative water supplies into entitlement frameworks. However, in some jurisdictions supply options may be unavailable due to policy constraints or community concerns. In such cases, transparent processes that include broad community and regulator engagement may provide a path forward.
- ◆ Victoria's robust, statutory-based planning framework has been a significant asset during recent extreme droughts. Planning frameworks are now significantly more sophisticated than prior to 2006. However, planning frameworks can never anticipate all extreme and unforeseen situations and must manage difficult trade-offs in order to ensure prudent expenditure and decision-making. Planning frameworks must also remain sufficiently flexible to incorporate and adapt to new information as it becomes available. In performing its new functions under the National Water Initiative (NWI), the Productivity Commission is encouraged to establish its own clear position rather than reaffirming the types of criticisms of planning frameworks (made by the National Water Commission) that can only be made with the benefit of hindsight, such as are quoted on page 16 of the draft report.
- ◆ Water trade has significantly reduced the overall economic impacts of drought allowing water to move between urban, agriculture and environmental sectors, and from low value to high value uses. VicWater supports water market mechanisms and is actively participating in the Victorian Government's Water for Victoria Strategic Actions to improve the effectiveness and transparency of water markets.

However, the trading of entitlements can have local negative community impacts resulting in rapid structural adjustment and there is a role for government to assist communities to make the necessary transitions and adjustments.
- ◆ Water corporations have historically had a clear mandate to deliver statutory services for the lowest sustainable cost. They are now embracing community expectations that decision-making will integrate economic, social and environmental considerations and externalities.

VicWater supports more integrated decision-making in line with the principles articulated in Draft Recommendation 6.4. Policy makers must provide more clarity regarding how non-financial externalities and other benefits should be factored in. In such situations where a higher cost infrastructure or service option can provide quantifiable community, environment or health benefits it remains unclear how the marginal costs and benefits should be attributed.

There may be a role for the Productivity Commission, in a future water reform program, to develop a transparent framework for considering, evaluating and recommending a funding source for these potential benefits that avoids pseudoscience.

- ◆ VicWater welcomes the Productivities Commission's recommendations regarding greater indigenous inclusion in the management of consumptive and environmental water, and encourages the commission to also consider the wider economic and community benefits from actively enabling indigenous economic participation in water markets. These recommendations support the clear policy position taken by the Victorian Government in the Water for Victoria strategy. Since water rights were historically gifted to land owners, it seems appropriate for government to fund and actively support indigenous participation in the water market.
- ◆ Future national water reform priorities should consider the benefits to water sector productivity and business performance that result from greater diversity and inclusion. Victorian water corporations are aware of the benefits of gender equality in decision making and have taken significant steps to reduce the gender imbalance (particularly in leadership, executive and senior management positions). These steps are supported by OECD research that indicates achieving gender parity in the workforce participation and remuneration rates between men and women in OECD countries could boost global GDP by 12% over the next 20 years.
- ◆ Victorian water corporations are a model of competition by comparison and cross-sector collaboration. VicWater would gladly provide further information on collaboration initiatives that have delivered millions of dollars of savings to Victorians such as the Intelligent Water Networks Program and the VicWater Supply Chain Excellence Program.

Competition by comparison must be underpinned by transparent benchmarks that normalise uncontrollable cost factors. Performance results must be measured and reported through rigorous and transparent processes that provide confidence in the results.

Given Victoria's experience of competition by comparison resulting in better performance, VicWater does not support retail competition which is likely to undermine cross-sector collaboration and sharing innovations. Overseas examples of retail competition for water services, together with local examples of retail competition in energy markets, suggest few benefits and significant risks for customers.

- ◆ Australians largely take for granted their access to high quality drinking water and sanitation services. However, opportunities remain to improve public health outcomes through enhanced water and wastewater services. A potential focus area for a future national water reform program is the productivity benefits in the economy from improved community health from increased tap water consumption and reduced sugary beverage consumption.
- ◆ The final report could give greater consideration to clearly defining the ongoing purpose of the NWI and an appropriate role for the Productivity Commission to report on the implementation of future national water reform efforts that ultimately aim to maximise community benefits.

Since its establishment, the NWI has sat alongside contemporaneous and pre-existing water policy reform programs with many overlapping objectives. The former National Water Commission reported on and emphasised the NWI's role in reforms that often had other antecedents, but taking a passive role in relation to future reform. This approach contrasts with the more proactive and forward-looking instruments used in the National Competition Policy (NCP) framework.

The April 2017 VicWater submission on the National Water Reform Issues Paper emphasised Victorian water corporations' leadership in implementing the NCP, NWI and other Council of Australian Government water reforms. The submission also identified future reform opportunities such as the adoption of more integrated risk-based instruments to regulate the water industry. VicWater is satisfied that these suggestions have been incorporated into the draft recommendations and looks forward to further engagement with the Productivity Commission regarding how these recommendations can be progressed as part of future national water reform program.