

VicWater Policy Platform

The foundation for action and advocacy on
regulatory reform, government policy,
and the role of the industry in an
evolving social, economic and
environmental context



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PREAMBLE

Victorian Water Industry Policy Platform

The water industry plays a fundamental role in the health and prosperity of Victoria's communities, environment, and economy. The experiences and perspectives of the Victorian water industry provide essential insights to inform policy and regulation that affects the industry, its customers, and the communities it serves.

VicWater has a clear mandate to influence government policy and regulation. Advocating for the interests of water businesses, the communities they serve and the environment on which they depend is part of the core business of the industry.

In 2020 VicWater commenced the development of this Water Industry Policy Platform to fulfil that mandate. This Policy Platform consolidates industry-wide positions on priority issues, articulating a strategic agenda for change supported by VicWater's members, Victoria's 18 water corporations.

The water industry works positively and progressively in addressing common challenges. These include continuing to provide fit-for-purpose water services and maintaining the long-term financial sustainability of the industry while keeping prices affordable in the face of a changing climate. It also ensures the plans and priorities of water corporations are proactively factored into policy and planning processes, and leverages the broader role water corporations can play into the economy and environment while recognising these roles are not always formally factored into pricing considerations. The industry is well served by developing

a consensus-based approach to advocacy to achieve the best possible outcomes for customers, the community, and the industry.

This Policy Platform provides the foundation for action and advocacy on regulatory reform, government policy, and the role of the industry in an evolving social, economic and environmental context. A key audience for this Policy Platform is decision-makers in the Victorian Government.

This Policy Platform has three components:

- this **Preamble** describes the purpose of the Policy Platform and the industry's policy context.
- the **Principles** express the industry's core values and underpin its advocacy.
- the **Position Statements** express where the industry stands on priority issues.

Victorian Water Industry Association

VicWater is the peak industry body for Victoria's 19 water corporations. VicWater enables water corporations to work 'better together' by advocating on behalf of its members to the Australian Government, Victorian Government and the community. This Policy Platform is a key mechanism for VicWater to influence policy and regulation. Championing this policy platform also delivers on VicWater's other strategic functions, including:

- being a catalyst for thought leadership and action
- galvanising resources for collective value
- supporting the industry for the ever-changing future
- facilitating collaboration.

VicWater will continue to work closely with its members to develop and implement this policy platform through the VicWater Policy Advisory Committee. It also works with other peak bodies, including the Water Services Association of Australia, which connects the urban water sector nationally.

As part of VicWater's annual policy cycle, the Policy Advisory Committee undertakes a detailed process to identify priority areas for advocacy that:

- address policy gaps, including long-standing issues for the industry
- are important to the community
- concern many or all members of VicWater
- align with the Principles in this Policy Platform
- facilitate consistency and/or efficiency across the industry
- provide an opportunity for Victorian industry leadership.

The Policy Advisory Committee then prepares a position statement for each priority issue, including consultation with the industry. Through the position statements and VicWater's advocacy, the industry promotes its core values as expressed in the Principles.

Victoria's Water Industry

Safe, reliable, affordable water services are essential to the way we live. Every day, millions of Victorians trust water corporations to provide the water they use for drinking, cooking, and washing. Businesses large and small depend on the industry to supply them with water and sewerage services, and Victoria's farmers rely on the industry's services to irrigate crops, trees and vines and to water livestock.

The Victorian water industry has been shaped according to the needs of its customers and by a national and state policy context that includes important instruments such as the National Water Initiative of the Council of Australian Governments (2004) and *Water for Victoria*, the Victorian Government's strategic plan for management of the state's water resources (2016). Today, it is a highly productive and efficient sector.

The 18 Victorian Government-owned water corporations are proud to deliver world-class water services to our community¹. The health and prosperity of Victoria's communities, environment and economy rely on the industry's capabilities. During the Covid-19 epidemic in 2020, the water corporations continued to deliver high quality services to their customers without interruption, and the industry is a key player in the state's recovery from the crisis.

Victoria's water corporations provide services to all Victorians and visitors to Victoria, including households, businesses, and farms. The industry employs over 6,000 people and builds partnerships across the community and the private sector. In 2020 water corporations will generate around \$6.4 billion in revenue to support the delivery of these services. This includes operating and maintaining over \$48 billion in assets and investing almost \$2 billion in capital works. The industry also generated over \$730 million in net revenue as dividends, levies and tax equivalent payments in 2018-2019 for the Victorian Government.

Victoria's water industry is recognised for its high-quality service delivery, effective governance and commitment to environmental sustainability. Victorians pay the lowest prices for water services and receive the highest consistent service standards in Australia. The industry is a 'quiet achiever': although its infrastructure and operations are largely invisible to the community, all Victorians can be confident in the service excellence of their water corporations, and their commitment to serving their communities.

The Minister for Water is responsible for water policy, supported by the Department of Environment, Land, Water and Planning. The industry is regulated by the Department of Health and Human Services (drinking water quality), the Environment Protection Authority (environmental impact) and the Essential Services Commission (pricing and service standards).

The water industry seeks to work closely with the Victorian Government and its regulators to develop policy and regulation in the interests of its customers and communities.

¹ The Victorian Competition and Efficiency Commission (VCEC) in 2007 found that Victorian water businesses had the lowest water service bills in the country in the period between 1995 and 2007, with the Melbourne retailers decreasing average water bills in real terms. This is despite significant improvements to customer services, with VCEC reporting that the retailers were achieving some of the best returns to assets in the Australian water industry.

PRINCIPLES

These Principles express the core values of Victoria's water industry. They reflect a shared understanding of the role of water corporations and underpin the industry's activities and advocacy.

1. Serving our customers and communities

- a. **Supply:** The industry supplies sufficient and fit-for-purpose water to all Victorians.
- b. **Affordability:** The essential water and sewerage services provided by the industry shall be affordable for all Victorians.
- c. **Customer service:** The industry strives to maintain high-quality, reliable, and accessible services.
- d. **Participation:** The industry seeks out customer and community opinions and includes them in its decision making.
- e. **Community benefit:** The industry is committed to generating benefits for the communities it serves and supporting Victoria's regions to flourish.

2. Responsible environmental stewardship

- a. **Sustainability:** The industry's activities recognise the sustainable practices of Caring for Country by First Nations People as essential to the continued availability of water resources in Victoria.
- b. **Ecosystem resilience:** The industry works to build the resilience of natural ecosystems and catchments, especially in the context of climate change.
- c. **Intergenerational equity:** The industry's activities in the present shall maintain or enhance the environment for future generations.

3. Good governance

- a. **Safety, health, and wellbeing:** The industry prioritises the safety, health and wellbeing of our employees and the community.
- b. **Efficiency:** The industry delivers its services as efficiently as possible, and regulation of the industry must support it to operate efficiently.
- c. **Accountability:** The industry is accountable to its customers and stakeholders and makes transparent and evidence-based decisions.
- d. **Financial sustainability:** The industry shall be financially sustainable and its core services resilient to external shocks and changes over time.
- e. **Managing risks:** The industry carefully identifies and manages the risks it faces to provide safe, reliable, affordable services.
- f. **Subsidiarity:** The decisions made in respect of the industry are best made at the most local level possible.

4. Respect and inclusion

- a. **Recognition of First Nations People:** The industry acknowledges and respects First Nations People as the original custodians and Traditional Owners of Victoria's land and waters, and seeks to achieve mutual benefit through meaningful engagement and participation with First Nations People.
- b. **Diversity and inclusion:** The industry is committed to growing a diverse workforce and inclusive workplace culture that is reflective of the communities in which it operates and serves.

5. Leadership and innovation

- a. **Collaboration and partnership:** The industry works together, and proactively with governments, communities and other stakeholders to achieve mutually beneficial outcomes.
- b. **Continuous improvement:** The industry maintains high standards of service by continuously improving its service delivery.
- c. **Best practice:** The industry champions best-practice in delivering services and community benefits.
- d. **Innovative thinking:** The industry promotes innovation and encourages entrepreneurship to address challenges and achieve service excellence.

POSITION STATEMENTS

The Position Statements express the views of the Victorian water industry on priority issues and are informed by the Principles above. The Position Statements provide a mandate for VicWater to advocate on these issues on behalf of its members.

VicWater's policy focus will evolve as it identifies new priority issues and progresses existing issues. VicWater will prioritise its policy advocacy to reflect the urgency, opportunity or other imperatives associated with each issue.

Water Security

Context

Maintaining water security² is essential for water corporations to provide water services to the Victorian community. Victoria is experiencing a warming and drying trend due to climate change that is reducing the availability of water, and rapid population growth (notwithstanding a pause due to COVID-19) that increases demand for water. These pressures are challenging the industry to maintain water security.

Sustainable Water Strategies (SWSs) are the most effective, long-term mechanism to respond to water security challenges and provide a forum to manage the competition between multiple users for a finite and potentially diminishing resource. Managing this competition will require stronger and more integrated water resource planning processes that include robust decision-making and efficient and sustainable investments in infrastructure. It also requires effective cooperation between water corporations, different levels of government, industry stakeholders and the community.

Water corporations already face significant challenges with trade-offs between investing in water security and liveability and keeping water prices affordable. These challenges are compounded by the long lead times required to develop new infrastructure. The industry learned some important lessons during the Millennium Drought and must apply these lessons to meet the water security challenges of the future.

Objectives

The objectives of the Victorian water industry on water security include:

- Victoria has resilient water systems that maintain water security.
- The Victorian water industry has a shared understanding of water security that reflects the perspectives of multiple users (urban, rural, industrial, environment, recreation, Traditional Owners, and others).
- The central role of water corporations in achieving water security is reflected in policy, regulation and Victorian Government engagement with the community.

Position Statement

1. The industry recognises and promotes the central role of Victoria's water corporations in making planning decisions to maintain water security in the best interests of their communities.
2. SWSs must integrate the long-term visions and plans of water corporations developed in partnership with their communities, including Urban Water Strategies and Integrated Water Management Plans.

² Water security is the ability to safeguard sustainable access to adequate quantities of acceptable quality water for sustaining livelihoods, human well-being, and socio-economic development, for ensuring protection against water-borne pollution and water-related diseases, and for preserving ecosystems (see <https://www.unwater.org/publications/water-security-infographic/>), in light of climate change and population growth.

3. Costs and price implications, community preferences and customer willingness-to-pay must be considered in developing SWSs.
4. SWSs and Urban Water Strategies need to include adaptive planning and readiness options, ensure all options are carefully and fully assessed on their merits, and promote community understanding of water security.
5. Water corporations, regulators and other stakeholders should work together to incentivise the flexible use of alternative and sustainable water sources so that we are not single-point dependent.
6. Industrial and agricultural users need greater certainty regarding water availability.

Financial Sustainability

Context

As autonomous businesses delivering services and managing long-lived infrastructure, water corporations negotiate an important balance between delivering affordable services now and effective service provision in the future. Water pricing should reflect the true cost of water services, which includes the cost of delivery in the present, and the cost of building, maintaining and renewing infrastructure over time. Embedded in this objective are principles of economic efficiency, intergenerational equity, and the need to smooth prices over time to avoid 'bill shock'.

Achieving this outcome is made more complex by the fact that water industry assets are extremely long-lived – treatment plants generally last over 50 years, pipes may last 100 years, and dams could last 300 years. It is further complicated by the need to invest in new infrastructure to meet the projected needs of Victorian communities in future, without unfairly burdening one generation of water users.

Water corporations are committed to being efficient and acknowledge the range of checks and balances already in place to support this, noting the Essential Service Commission's PREMO framework.

Water corporations are exposed to the challenges of climate change and population growth as well as broader changes in the Victorian economy and shocks such as COVID-19. It is essential that water corporations, policy makers and regulators take a long-term, strategic approach to enabling the water industry to meet these challenges through adequate revenue and prices. Maintaining lower prices needs to be balanced against the need to maintain intergenerational equity and affordability, service quality, and reliability.

Objectives

The objectives of the Victorian water industry on financial sustainability include:

- Revenue and prices that provide for high quality, reliable and affordable services, supported by appropriate government infrastructure investment, to foster the industry's financial strength, stability, and resilience over time.

Position Statement

1. Water corporations' revenue and prices cover the real cost of service provision now and in the future to create a positive legacy for future generations.
2. The industry is reviewing its long-term financial sustainability through an economic review and seeks the Victorian Government's support for the recommendations of that review.
3. Clear direction from the Victorian Government, informed by customer feedback, on managing trade-offs within the price regulatory framework would enable more consistent industry decision making.

Customer Affordability

Context

Water corporations provide essential services, and it is critical to ensure these services are affordable for all Victorian households. The water industry works in partnership with Victorian Government agencies to support customers who are vulnerable or facing hardship. The economic hardship caused by recent events, such as drought, bushfires, and COVID-19 pandemic, means more Victorians need support to afford their water bills than ever before. This highlights the importance of effective policy and regulatory settings that ensure affordability of water services for vulnerable customers.

Although affordability is a priority for all water corporations, pricing structures and hardship support programs are not uniform across the state. Identifying affordability challenges and potential responses is made more difficult by the lack of a common definition or measure of affordability. Collaboration across the industry and with the Australian Government and Victorian Government to address these issues will generate a more effective approach to affordability, facilitating peer-to-peer learning in the industry and improving the experiences of customers across Victoria.

Objectives

The objectives of the Victorian water industry on customer affordability include:

- All residential customers can access affordable essential water services
- Affordability of water services can be consistently measured using established metrics and targets

Position Statement

1. The design of all forms of customer support should reflect the important role they play for vulnerable customers in service affordability.
2. A consistent approach to measuring affordability in the water industry and a more uniform approach to customer supports across the industry should be adopted to improve equity.
3. Concessions and Utility Relief Grants should be processed in an efficient and timely way to support customers who are vulnerable or experiencing hardship.
4. Concessions in water bills should be automated to provide faster, easier bill relief.
5. The industry should develop self-serve hardship mechanisms to support customers requiring short-term bill relief.
6. Mechanisms to reduce bill pressures for vulnerable customers should be considered, including social tariffs.

Environmental Stewardship

Context

Water industry activities create environmental risks that are regulated by Victoria's Environment Protection Authority (EPA). The cost of upgrading sewerage networks and treatment facilities to reduce these risks can be very high and will ultimately be borne by customers. Reducing these risks involves trade-offs with higher water service prices which need to be managed carefully over time.

The *Environment Protection Act 2018* (EP Act) establishes a General Environmental Duty (GED) that requires all entities to adopt 'reasonably practicable' measures to prevent harm to the environment and human

health. In contrast to more prescriptive compliance standards, this duty follows the ALARP principle³ for safety in creating a more flexible, risk-based standard of environmental performance. Under this approach, the way water corporations make decisions and prioritise actions to discharge their GED will be subject to great scrutiny.

Under the EP Act the water industry may develop guidelines, policies and codes of practice that show how the industry will comply with the GED. An industry-led approach to developing these tools will support the industry to assess, manage and mitigate environmental risks. It will reduce the risk of arbitrary compliance and enforcement action, and it will support constructive engagement between regulators, the industry and with other stakeholders (local councils, catchment management authorities, etc.) to manage the price implications of addressing environmental risks.

Objectives

The objectives of the Victorian water industry on environmental stewardship include:

- A clear understanding of what is required to fulfil the GED under the EP Act
- A well-defined policy framework that supports effective environmental performance across the industry in a cost-efficient manner

Position Statement

1. The water industry is committed to preventing harm to health and the environment and will build on its strong track record of environmental management.
2. The implications of the compliance obligation created by the GED for water prices should be carefully considered by all stakeholders.
3. The industry seeks genuine dialogue with the EPA to achieve the industry's objective of meeting its environmental obligations in a cost-effective way.
4. Industry-led guides and codes of practice are needed to support water corporations to meet the requirements of the GED and provide a framework to engage with stakeholders about investment in environmental outcomes.

Circular Economy and Waste Management

Context

Waste management is an essential service. It is also a challenging and rapidly evolving area of policy and activity that presents opportunities for the water industry. *Recycling Victoria: A new economy*, the Victorian Government's recycling policy released in 2020, highlights the importance of developing the circular economy in Victoria. In circular economy resource management models, sewage and biosolids are recovered and reused as recycled water, waste-to-energy, nutrients and biosolids applications.

Management of sewage is part of the core business of water corporations – they are the largest processors of organic waste materials in the state. Yet the industry does not capture all the value of these resources, and there is strong interest in finding opportunities to build on its organic waste processing capabilities.

The water industry has significant expertise in the treatment of liquid organic waste, which is closely related to some treatment methods for other organic waste (including food waste). The industry faces challenges in

³ The ALARP (“as low as reasonably practicable”) principle requires the residual risk to be reduced as far as reasonably practicable.

financing research and development and new facilities to build on this expertise to participate in the circular economy. Water corporations also need to balance the financial risks and rewards of entering a competitive market for waste management.

Rapid developments in policy and investment in recycling and the circular economy in Victoria offer opportunities for the water industry to expand its role in waste management. They may also provide a vehicle for addressing existing challenges with biosolids and sewage and foster innovation in the industry. Beyond, there is the opportunity to create a life cycle approach to the production and disposal of assets, built into the design of new infrastructure, and influencing the supply chain toward low footprint technologies.

Objectives

The objectives of the Victorian water industry on circular economy and waste management include:

- The role of Victoria's water corporations in waste management and the circular economy is clearly understood and supported by the industry, the Victorian Government, and the community
- Circular economy systems are well integrated, and generate and sustain new markets for recovered resources in which the water industry can participate

Position Statement

1. The water industry seeks to deepen its participation in the circular economy and supports the development of a legislative and regulatory framework that enables that participation.
2. Funded research and development are needed to support innovation in waste management and the circular economy in the water industry.
3. The water corporations seek access to government funding on a level playing field with all participants in the circular economy.
4. The opportunities of the circular economy should be approached with the eyes of 'designers' not 'managers', going beyond sewage treatment and making investment decisions based on how to recover and reuse resources.
5. Collaboration between the water industry, regulators, policy makers, industry, local government, research organisations, and the community is essential to strengthen the role of the water industry in the circular economy.

Carbon Emissions Mitigation and Offsets

Context

Climate change is one of the most significant challenges facing the world and Victoria in the 21st century. Victoria is already experiencing warmer temperatures and reduced rainfall due to climate change. Climatic changes have serious consequences for the water industry, creating risks to water supply, infrastructure, and communities.

The Victorian water industry has a significant role to play: sewerage collection and treatment generates large volumes of direct emissions, and the movement and treatment of water and sewage uses large amounts of emissions-intensive energy. Collectively, the water industry produces around one quarter of all Victorian Government emissions in Victoria.

Victoria has a legislated target of net zero emissions by 2050, and the Victorian Government has designated the water industry as a leader in reducing emissions. The Minister for Water has set out specific obligations to reduce emissions for water corporations in the Statement of Obligations (Emission Reduction) (SoO-e).

The industry is developing innovative approaches to prevent and reduce emissions, including facilitating cross-sector and inter-sector partnerships to maximise economies and benefit realisation. However, due to their extensive direct emissions, water corporations will also need to use carbon offsets to meet their emissions reduction obligations in the short to medium term.

Objectives

The objectives of the Victorian water industry on carbon emissions mitigation and offsets include:

- Water corporations achieve genuine carbon neutrality in a cost-effective way without compromising affordability
- The water industry is recognised as a leader in emissions prevention and reduction

Position Statement

1. A revised version of the SoO-e should provide:
 - a. a clear net zero emissions target to allow sufficient time for water corporations to achieve this goal efficiently, and
 - b. access to all Victorian carbon offsets that are available under the Climate Active Carbon Neutral Standard (CACNS).
2. Victorian Government support for shadow carbon pricing would help to achieve cost-effective emissions reduction and long-term investment planning.
3. Broader engagement with Victorian communities to understand their willingness to pay for emissions reductions is needed to support emissions reduction efforts.

Recreational Use of Water Storages

Context

Recreational activities at water storages contribute to liveability and community wellbeing. There is increasing demand for these activities throughout Victoria and for facilities and services that support them. In *Water for Victoria* the Victorian Government committed to supporting recreation at water storages with infrastructure and better information.

Recreational access to water storages can threaten water quality. Providing facilities and services to support recreation at water storages is additional to the essential services provided by water corporations and has operational and resourcing impacts. However, there is a clear expectation from the community and from the Victorian Government that these services and facilities will be made available. Water corporations need to balance the risks to water supplies and the cost to customers of providing additional unfunded services to the community with their commitment to supporting recreational use of water storages.

Objectives

The objectives of the Victorian water industry on recreational use of water storages include:

- Water corporations achieve a balance between facilitating recreational access to water storages and effectively managing the core functions of water storages to provide safe, reliable, and affordable water supplies
- The costs of providing for recreational use of water storages are distributed fairly

Position Statement

1. Sustained and adequate Victorian Government funding is needed for recreational assets, facilities, and services on and around water storages.
2. Streamlined legislative arrangements are needed to support the effective management of recreational activities associated with water storages.
3. More public information from the Victorian Government and the industry is needed to build community awareness of the core functions of water storages in Victoria's water system.
4. A whole-of-government appreciation of the obligations of water corporations to manage water storages according to regulatory standards and risk frameworks is critical for their viability to support community water supplies.

APPENDIX: Key Stakeholders and Underpinning Principles

Position Statement	Key Stakeholders	Underpinning Principles
Water Security	<ul style="list-style-type: none"> Department of Environment, Land, Water and Planning (DELWP), notably Water and Catchments Group Water industry regulators, including the Environment Protection Authority (EPA) and the Department of Health and Human Services (DHHS) 	<ul style="list-style-type: none"> Serving our customers and communities (supply, customer service) Responsible environmental stewardship (sustainability) Good governance (subsidiarity) Leadership and innovation (collaboration and partnership)
Financial Sustainability	<ul style="list-style-type: none"> Department of Environment, Land, Water and Planning (DELWP) Department of Treasury and Finance (DTF) Essential Services Commission (ESC) 	<ul style="list-style-type: none"> Serving our customers and communities (affordability) Good governance (financial sustainability) Leadership and innovation (best practice, continuous improvement)
Customer Affordability	<ul style="list-style-type: none"> Department of Health and Human Services (DHHS) Department of Environment, Land, Water and Planning (DELWP) Essential Services Commission (ESC) 	<ul style="list-style-type: none"> Serving our customers and communities (affordability, social responsibility) Good governance (safety, health, and wellbeing) Leadership and innovation (continuous improvement)
Environmental Stewardship	<ul style="list-style-type: none"> Environment Protection Authority (EPA) Essential Services Commission (ESC) 	<ul style="list-style-type: none"> Serving our customers and communities (affordability) Responsible environmental stewardship (sustainability) Good governance (efficiency) Leadership and innovation (collaboration and partnership, continuous improvement)
Circular Economy and Waste Management	<ul style="list-style-type: none"> Recycling Victoria Department of Environment, Land, Water and Planning (DELWP) Essential Services Commission (ESC) Department of Treasury and Finance (DTF) 	<ul style="list-style-type: none"> Responsible environmental stewardship (sustainability) Good governance (financial sustainability) Leadership and innovation (innovative thinking)

Position Statement	Key Stakeholders	Underpinning Principles
Carbon Emissions Mitigation and Offsets	<ul style="list-style-type: none"> • Essential Services Commission (ESC) • Department of Environment, Land, Water and Planning (DELWP) • Department of Treasury and Finance (DTF) 	<ul style="list-style-type: none"> • Serving our customers and communities (community benefit) • Responsible environmental stewardship (sustainability, intergenerational equity) • Good governance (efficiency) • Leadership and innovation (best practice)
Recreational Use of Water Storages	<ul style="list-style-type: none"> • Department of Environment, Land, Water and Planning (DELWP) • Department of Treasury and Finance (DTF) • Victorian Government and local government land managers 	<ul style="list-style-type: none"> • Serving our customers and communities (community benefit) • Good governance (financial sustainability) • Leadership and innovation (collaboration and partnership)