

DRAFT NATIONAL WATER POLICY AGENDA

High Level Steering Group on Water

August 2000

Comments on this paper are welcome and should be forwarded to:

Peter Komidar
Director
Sustainable Water Section
Environment Australia
GPO Box 787
CANBERRA ACT 2601
or emailed to peter.komidar@ea.gov.au

PREAMBLE

The Draft National Water Policy Agenda was produced by the High Level Steering Group on Water (HLSGW), which is comprised of Chief Executive Officers of State water agencies and includes representation from Environment Australia and State environmental agencies. The HLSGW is chaired by the Secretary of Agriculture, Fisheries and Forestry Australia, and reports to both the Agriculture and Resource Management Council of Australia and New Zealand, and the Australian and New Zealand Environment and Conservation Council. The HLSGW provides strategic impetus for water reform. A key role of the Group is to ensure that at the national level every effort is made to overcome impediments to progress and promote best practice collaboration.

The Draft National Water Policy Agenda was noted by the Agriculture and Resource Management Council of Australia and New Zealand in August 2000, and endorsed for public release by the Australian and New Zealand Environment and Conservation Council in December 2000, noting that it was drafted in advance of the agreement by the Council of Australian Governments to the National Action Plan for Salinity and Water Quality. The Draft National Water Policy Agenda paper is released with acknowledgment that the policy context for natural resource management has evolved since its development, particularly in respect to the National Action Plan for Salinity and Water Quality.

oooOOOooo

DRAFT NATIONAL WATER POLICY AGENDA

BACKGROUND

1. Water is critical to Australia's economic performance and underpins the social fabric of every jurisdiction, particularly regional areas. The importance of water to Australia demands a comprehensive management system, which provides for equitable water allocation, protects the environment and caters for complex social needs.
2. In 1998, ARMCANZ Ministers responsible for water matters recognised that sustainable management of Australia's water resources is fundamental to our national well-being and one of the country's highest priorities. The Sydney water crisis, recent debate over water allocations from the Snowy River and the findings of the MDBC Salinity Audit all reinforce the critical nature of effective water resource management. In addition to these well-publicised examples, there are many other environmental and economic benefits to be gained through implementing a National Water Policy Agenda.
3. Australians benefit considerably from the productive use of water. Latest Australian Bureau of Statistics figures (Water Account for Australia 1993-94) indicate that in 1996-97 there was 2.056 million hectares of irrigated agriculture in Australia with a total annual value of production of \$7.254 billion. The value of irrigated agriculture in the Murray Darling Basin alone is \$3 billion per year.
4. Recent research has shown that, despite Australia's water resource limitations, there are ways in which the economy can continue to grow while environmental water requirements are satisfied. These outcomes can only be achieved through further improvements in water use efficiency and the continued implementation of water reforms. For example, water trading has enabled water to move to new developments in the Murray Darling Basin even within the "cap" imposed by the Murray Darling Basin Ministerial Council.
5. The efficient use of the \$90 billion of water infrastructure (COAG Report of the Expert Group on asset valuation methods and cost recovery for the Australian Water Industry, 1995) will also be critical to support the current growth in population and sustainable rural and regional development.
6. The extensive use of many of the nation's river and groundwater systems has led to various significant environmental problems. Salinity provides the most graphic example of these problems. Rising water tables, caused in part by land clearing and irrigation, has led to a \$700 million loss in land capital values and an estimated \$130 million loss in agricultural production (Prime Minister's Science Engineering and Innovation Council (PMSEIC), Dryland Salinity and its impact on rural industries and the landscape, 1998).

7. Australia-wide PMSEIC estimated there are 2.5 million hectares of severely salt-affected land today and potentially more than 15 million hectares in 50 years. The on-going implementation of reforms will be critically important to stop the widespread degradation caused by salinity.
8. The Council of Australian Governments (COAG) agreed in 1994 to a framework of reforms to the way water is allocated, delivered and paid for in Australia. The Framework consists of a series of policies designed to put a realistic commercial value on water and to encourage its highest value use whilst at the same time addressing environmental issues.
9. The principles of the framework are:
 - Introduction of commercial principles to the water industry, including privatisation or corporatisation of utilities;
 - Separation of water wholesale and retail supply organisations with performance monitoring at both levels;
 - Separation from supply responsibilities of regulatory functions that protect the public interest in the way the resource is managed, allocated and priced;
 - Consumption-based pricing set to cover all costs of supply;
 - Establishment of water rights as a separate property right from land;
 - Markets for the free trading of water rights separately from land;
 - Reduction in subsidies and transparency of cross subsidies in water provision;
 - Recognition of the environment as a legitimate user of water;
 - Jurisdiction support for natural resource management through integrated catchment management; and
 - Effective communication and education concerning the reforms.

CURRENT ISSUES IN WATER MANAGEMENT

10. **Post-reform framework approaches:** The current water reform framework is delivering considerable changes in the way water is managed in Australia. However, there remains significant work to be done to build on the results of those reforms. To not do so will result in failure to address increasingly complex social and resource management issues such as;
 - Increased competition for a finite resource leading to reduced security, conflict between users and constraints on future regional development opportunities;
 - Stressed rivers and streams which are less able to support consumptive and environmental uses including water supply, recreation and tourism;
 - Over-allocation and degradation of groundwater systems;
 - Declining levels of water quality and increased treatment costs; failing infrastructure and unsustainable financial management strategies; and
 - Increasing expectations of customers in relation to value for money services.

11. The implications of these issues for policy makers are considerable and serious. There is a need for a national set of post-reform framework approaches in order to avoid the serious consequences and to meet the challenges mentioned above.
12. **National Competition Council 3rd tranche assessments:** The National Competition Council commenced preparations for assessments of jurisdictions' progress with implementation of water reforms in July 2000 for the third tranche of National Competition Payments. Assessments for this tranche of payments will concentrate on progress with rural water reform.

A NATIONAL WATER POLICY AGENDA

13. The High Level Steering Group on Water (established by SCARM) proposes the following approach to build on the achievements of the Water Reform Framework. The Agenda's objective is to pursue national economic, social and environmental benefits through a shared vision across jurisdictions of principles and practices for improving the Australian water industry.
14. The National Water Policy Agenda seeks to deliver the following benefits:
 - sustainable rural and regional growth;
 - enhanced environmental quality of rivers, streams and groundwater;
 - reduced conflict between competing users of the resource; and
 - increased customer satisfaction.
15. Water policy fits with the developing approaches to natural resources management. In many ways national water policy has driven the process of development of natural resource management across Governments. The importance of natural resource management in a broader sense is being addressed by the COAG High Level Group of Officials on Natural Resource Management. The proposed agenda and strategies provide the means to achieve the key objectives of improvements to salinity and water quality.

RECENT PROGRESS IN WATER POLICY AND REFORM

16. While jurisdictions have pushed ahead with implementing the COAG Framework, there are a number of priority areas where further action is needed to realise fully the economic and environmental gains of reform. Recognising this the High Level Steering Group on Water identified the following priority areas for further national effort to assist jurisdictions in gaining full benefits from the COAG reforms:
 - A Consistent National Approach to Water Trading;
 - Guidelines for Managing Externalities;
 - Provision of Water for the Environment;
 - Future Directions in Water Regulation in Australia;
 - Institutional Approaches to Water Resource Management; and

- Opportunities for Improved Management of Groundwater.

FUTURE WATER AGENDA PRINCIPLES, BENEFITS AND STRATEGIES

17. The High Level Steering Group on Water considers there is national consensus on the underpinning principles to guide the future management of water resources and the delivery of water sector services. These principles, consistent with the COAG Water Reforms are:
 - environmental sustainability, including the provision of water for ecosystems;
 - transparent and equitable resource allocation;
 - integrated land and water management;
 - customer focussed and efficient service delivery;
 - financial self sufficiency and fair pricing;
 - clear accountabilities and responsibilities;
 - separation of conflicting roles; and
 - community education and involvement.
18. The benefits of adopting and implementing a national agenda incorporating the above principles are; sustainable rural and regional growth, enhanced environmental quality of rivers, streams and groundwater, reduced conflict between competing users of the resource and increased customer satisfaction.
19. The proposed strategies to drive future water industry policy are:
 - (i) A transparent and legally enforceable system of property rights for resource allocation for all uses including the environment;
 - (ii) Water provision for environmental and ecosystem purposes
 - (iii) A system of water trading to enable water to move to higher value uses;
 - (iv) Community engagement in land and water resource management and planning at the regional/catchment scale;
 - (v) Pricing policies which reflect the full cost of service delivery including agreed approaches to offset or avoid environmental impacts;
 - (vi) Regulatory frameworks which encourage benchmarking of performance and financial sustainability;
 - (vii) Risk Management approaches to droughts and floods;
 - (viii) Targeted investment in research, education and infrastructure enhancement to generate efficiency and reuse; and
 - (ix) Groundwater systems analysis, including the conjunctive use of surface water and groundwater to improve groundwater management.
20. These strategies are consistent with the COAG Water Reform Framework and implementation of the COAG reforms to date and will ensure jurisdictions are well placed to achieve the desired benefits.

LINKS WITH NATURAL RESOURCE MANAGEMENT AGENDA AND HLSGW PRIORITY PROJECTS

21. As noted above the key areas for natural resource management covering salinity and water quality require a close association with water policies to meet their objectives. All of the HLSGW priority projects outcomes will have direct relevance to other natural resource management issues currently under examination by the COAG High Level Group on Natural Resource Management. For example, the HLSGW paper *Draft Guidelines for Managing Externalities* seeks a clearer approach to the management of externalities within a regional/catchment approach to water use objectives. It is proposed that this paper be passed to the HLSG on NRM for endorsement prior to public release.
22. **Water Trading:** Trading in water has produced benefits in regional Australia. However there is potential for more extensive trading beyond the current estimate of 7% of the volume of water available. The HLSGW sees a need to invigorate water trading across jurisdictions by identifying and proposing key actions to remove impediments to the development of water markets. Many of these impediments revolve around arrangements that government and industry participants can make to improve the operation of current markets. A broad national framework is proposed, facilitating the adoption of best practice covering property rights and entitlements, water trading rules, market choices, market information, water trading procedures, certainty/confidence/ approval times and further development/capital efficiency. It is proposed to distribute the HSLGW paper *A Consistent National Approach to Water Trading* widely for comment with jurisdictions to report back to ARMCANZ on outcomes.
23. **Identifying and Charging for Externalities:** Costing the environmental effects of productive water use is recognised as a major theoretical and implementation difficulty for achievement of full cost pricing for water. Achieving agreement on the size and nature of externalities and agreement on how to pay for these is necessary for improved resource allocation and catchment health. The HLSGW has commissioned a report which suggests a variation to previous approaches to identifying and charging for externalities for water. The suggested approach is for people and agencies within a catchment or region to agree on water resource condition (for example, a future measure of water quality or environmental condition) and to manage to achieve this over a given period. There would then be agreement on how the investment to achieve this objective is raised and allocated. This approach is also relevant to other natural resource management areas. Therefore, it is proposed the *Draft Guidelines for Managing Externalities* be referred to the COAG High Level Group of Officials on Natural Resource Management prior to its release by officials for broader public exposure and report back to ARMCANZ and ANZECC.

24. ***Water for the Environment:*** Allocating water for different uses whilst maintaining acceptable environmental conditions is a difficult task. However, all jurisdictions recognise that provision of water for environmental needs are essential for continued functioning of ecosystems and to provide security for continued consumptive users. All jurisdictions are committed to making allocations for the environment and to assist in this regard ARMCANZ and ANZECC released *National Principles for the Provision of Water for Ecosystems* in 1996. To further assist jurisdictions in this area, the HLSGW is sponsoring work which reviews and updates the 1996 principles and best practice for allocating water for ecosystems as well as national environmental water parameters. The completed paper is expected to be available by November 2000 and ARMCANZ and ANZECC Ministers will be asked to jointly sponsor the release of the paper for public comment. Both Councils will consider outcomes of that process.
25. ***Costs of Improved Drinking Water Standards and Public Health Benefits:*** HLSGW has identified an issue of consumers and water utilities having to bear the costs of introducing often increasingly costly improved water treatment technology as the principal managing drinking water where there may be no, or little, benefit for public health. Alternative approaches such as through investment in water catchment management to ensure drinking water quality may offer lower cost solutions. HLSGW sees this issue as one that could be addressed in rolling revisions to Drinking Water Quality Guidelines as part of the National Water Quality Management Strategy and is preparing a paper for SCARM/ARMCANZ and ANZECC consideration using that approach.
26. ***Opportunities for Improved Management of Groundwater:*** Progress in the reforms to surface water in Australia have brought increased emphasis on the management of groundwater and increased emphasis on the need to integrate the management of both sources. About three million Australians are wholly or partially dependent on groundwater for drinking and its importance in large parts of Australia's irrigation and dryland farming areas sustainable groundwater management is a critical area of national focus. The need for urgency in providing improved management of groundwater is pressing. For example the National Land and Water Resources Audit is expected to report that a significant percentage of Australia's groundwater systems are over allocated. In addition, approximately two thirds of annual extraction of Great Artesian Basin water for pastoral purposes is wasted from failed bores and open bore drains. To assist jurisdictions in gaining shared views on the future directions for groundwater, the HLSGW initiated four projects:
- environmental groundwater-specific issues not covered by the project mentioned above;
 - an examination of the potential for trading in groundwater;
 - best practice for recovering from over-allocated or over-used situations; and

- a re-examination of the groundwater aspects of the National Water Quality Management Strategy.
27. Final reports on these projects from the High Level Steering Group on Water will be circulated to ARMCANZ and ANZECC consideration.

oooOOooo