

Queensland Branch
Australian Water Association

Examining the Federal Government's Urban Water Agenda

What might be in it for Queensland?

Overview and context setting

Three decorative, wavy, light blue lines that originate from the left side of the slide and taper to a point on the right side, creating a sense of movement and flow.

19 October 2011

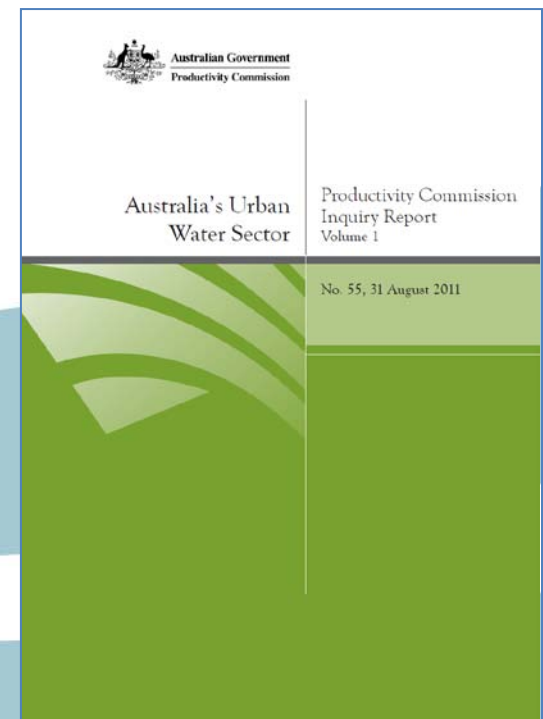
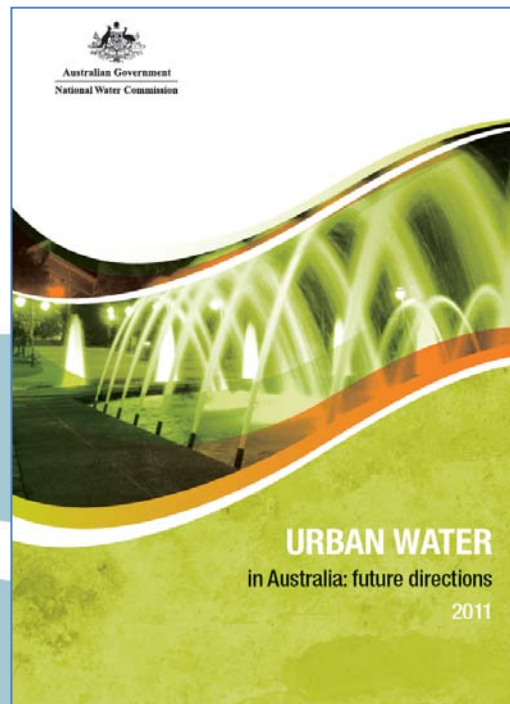
Greg Oliver
Director, EPM Consulting

THREE NATIONAL REPORTS

Productivity Commission (PC)

Infrastructure Australia (IA)

National Water Commission (NWC)



THREE NATIONAL REPORTS

INFRASTRUCTURE AUSTRALIA

- Aust. Drinking Water Standards
- National management framework and reporting
- Improved water pricing
- Develop workforce skills
- Reform structures in NSW and Qld

NWC

- Policy settings re supply-demand balance
- Clarity of regulation regarding environment and integrated urban water management (IUWM)
- Role clarity for the 'urban water sector' in 'water sensitive' or 'livable' cities
- Need for agreed objectives for the urban water sector
- Customer service/choice
- Capacity in regional/rural areas

THREE NATIONAL REPORTS

PC

- **Economic efficiency**
- **Clarity of objectives for the urban water sector**
- **Clarity about roles, responsibilities and accountabilities**
- **Reducing focus on water restrictions, water use efficiency and conservation**
- **Reducing constraints on efficient water resource allocation and supply augmentation**
- **Removal price distortions**
- **Structural efficiency**

THREE NATIONAL REPORTS – key common themes ?

Definition of and clarity of objectives for the 'urban water sector'

Role clarity

(utilities / providers / governments / regulators)

Greater focus on customer choices (eg water efficiency)

Removal price distortions (cost recovery and other welfare mechanisms)

Reducing constraints on other sources (resource allocation and supply augmentation)

Dealing with environmental externalities and IUWM

Governance (scale) efficiency - particularly NSW and Qld

Rumblings of jump in water rates get louder

Fraser Coast Chronicle, 28 May 2010

Water costs up, now add \$200,000

North-West Star, 1 April 2010

Get set for water hikes

Cooktown Local News, 28 April 2010

Water still 'OK'

Southern Star, 21 April 2010

Water pricing: scary and tragic

Morning Bulletin, 14 April 2010

Long dry raises water costs

Extra council revenue from high use will help mitigate against lean times

Morning Bulletin, 27 April 2010

Water cost fears sink town optimism

Central Telegraph, 7 May 2010

ONE MORE BLOW TO HIP POCKET

How will hikes in the cost of water and power affect you?

Gladstone Observer, 10 May

Water fee structure is theft: residents

Townsville Bulletin, 18 June 2010

North Burnett Council needs \$32m by 2020

Mayor won't touch drop of murky town water

Townsville Bulletin, 11 May 2010

Health warning to 1500 homes: 'Boil it to be safe'

PARASITE IN WATER

Cairns Post, 17 May 2010

No subsidy may result in increased water fees

Whitsunday Guardian, 9 June 2010

Council in secret talks over water

Daily News (Warwick), 29 April 2010

INSTITUTIONAL CHANGE / REFORM



INSTITUTIONAL CHANGE / REFORM

Bulk supply

Security

Demand

Drinking water safety

Community amenity

Customer service

Environmental protection

Integration

Sustainability

URBAN WATER INSTITUTIONAL CHANGE / REFORM

Our urban water *'institutions'* comprise...

policies

legislation

regulations

rules / codes / standards

plans and reporting requirements

operating procedures

ways of contracting services

asset and economic regulation

governance oversight / monitoring arrangements

community / customer / stakeholder engagement

ministerial and departmental arrangements

water organisations and structures

partnerships / alliances / MoUs

URBAN WATER INSTITUTIONAL REFORM

Multiple national reform agendas ? (competing or complimentary?)

Micro-economic...

the economic efficiency of water

Integrated urban water management...(IUWM)

the total water cycle / water sensitive cities

Sustainability...

GHG / carbon footprint / water efficiency / virtual water (footprint) / food production / water-energy-food nexus

URBAN WATER INSTITUTIONAL REFORM: Water Sensitive Cities

Establishing Water Sensitive Cities will involve significant departures from the conventional urban water management approach... and will require a major socio-technical overhaul of conventional approaches.

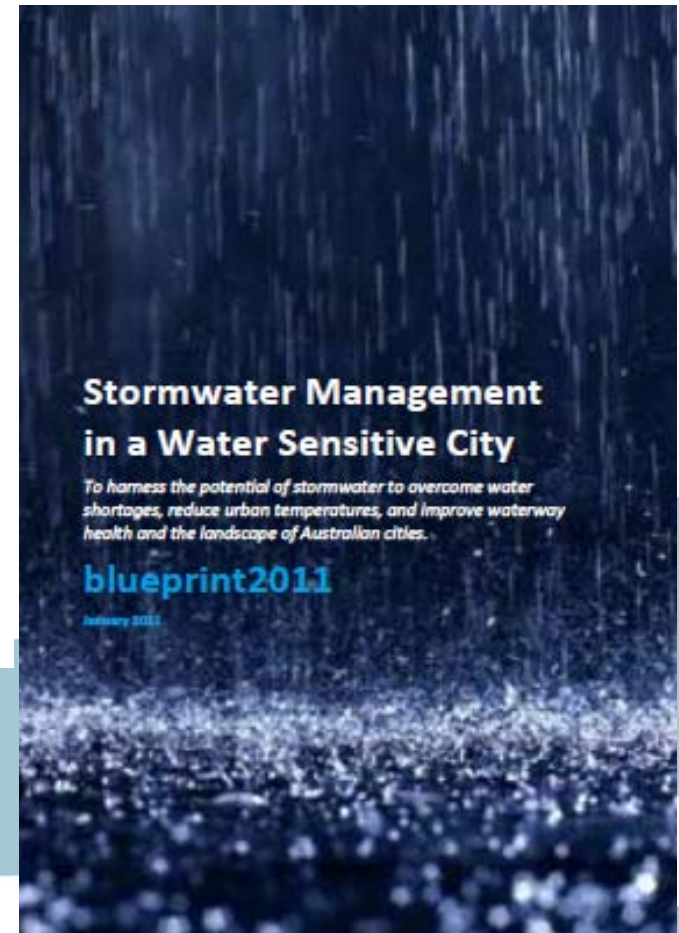


Stormwater Management in a Water Sensitive City

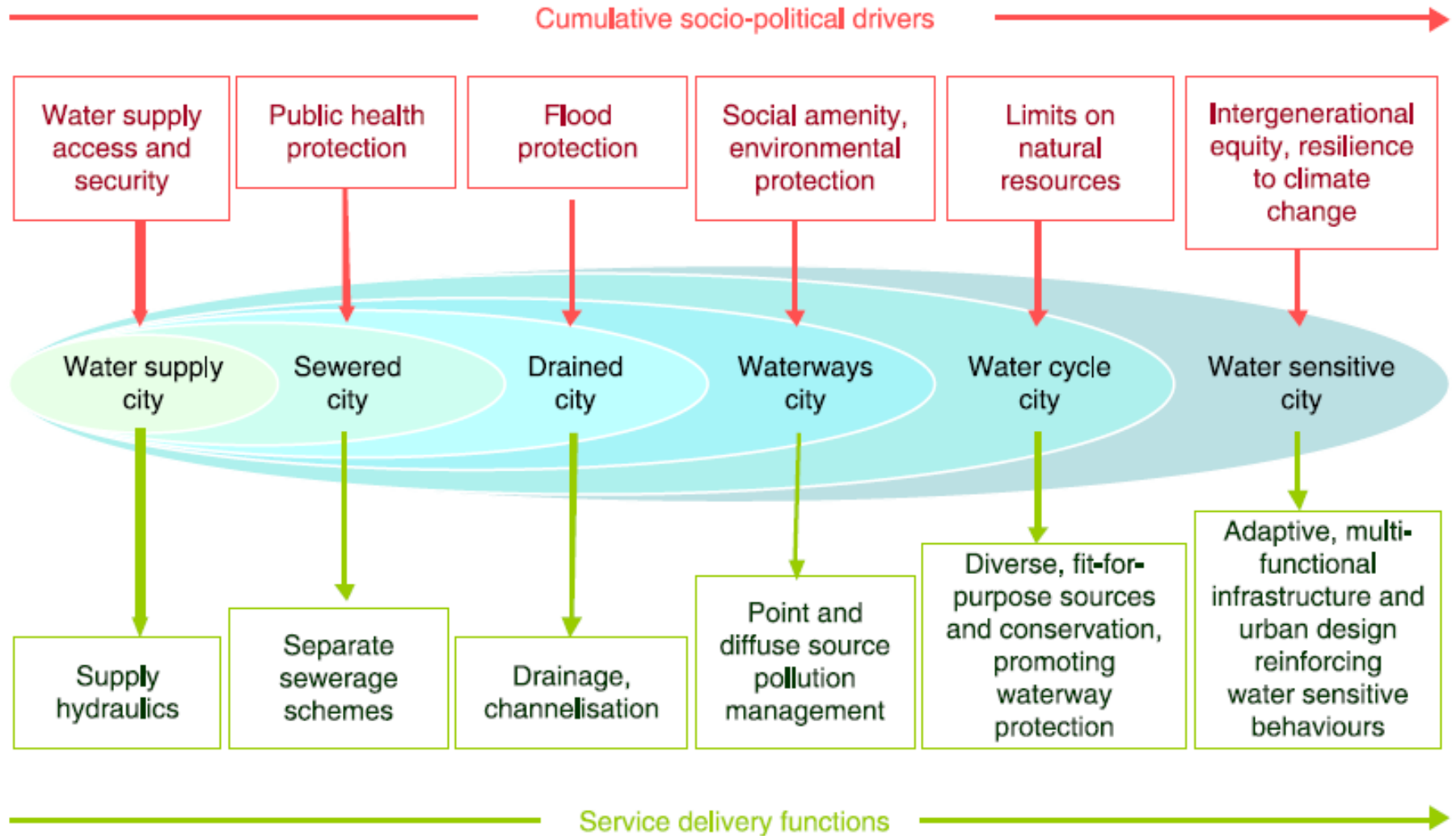
To harness the potential of stormwater to overcome water shortages, reduce urban temperatures, and improve waterway health and the landscape of Australian cities.

blueprint2011

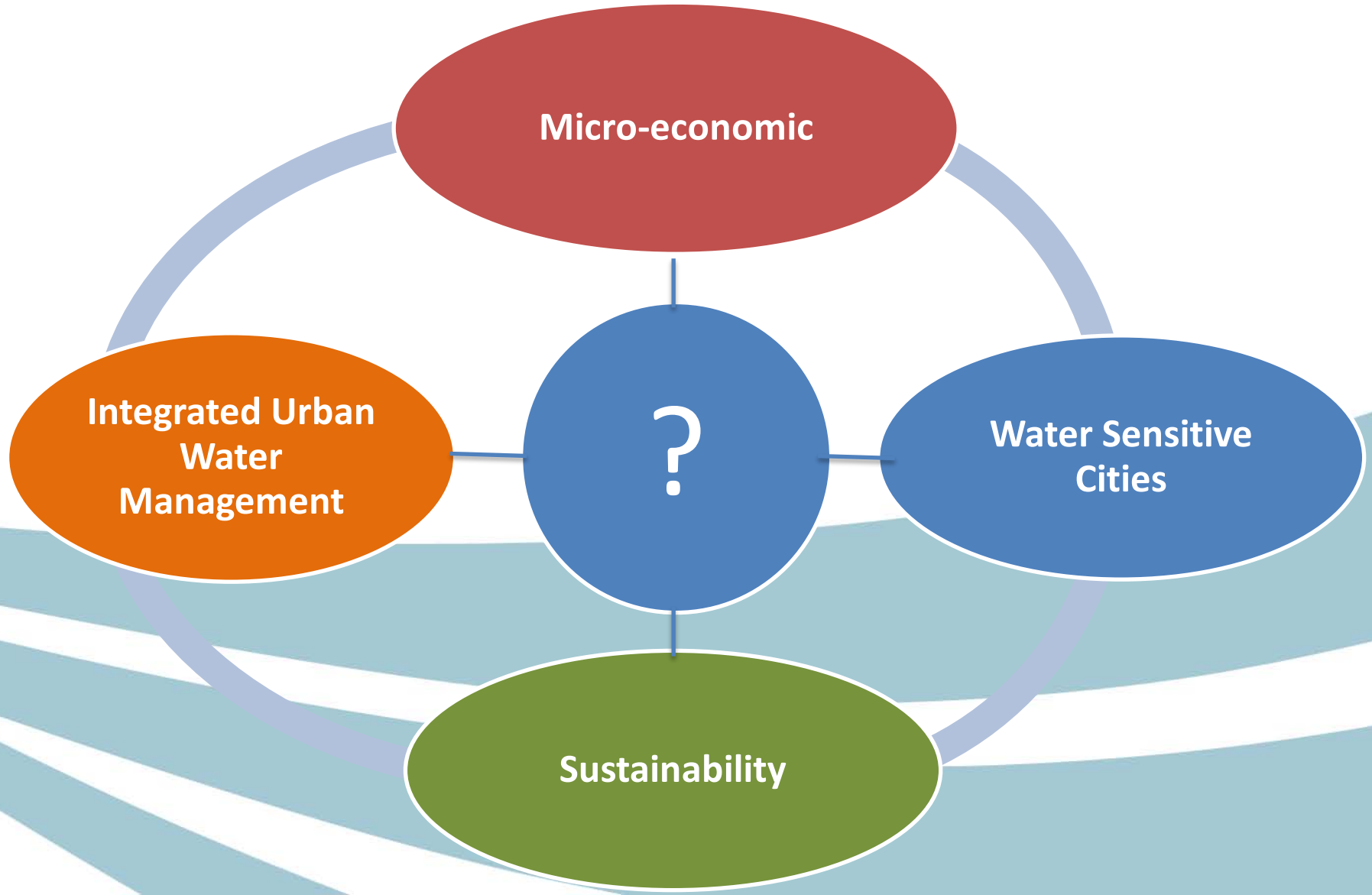
January 2011



URBAN WATER INSTITUTIONAL REFORM



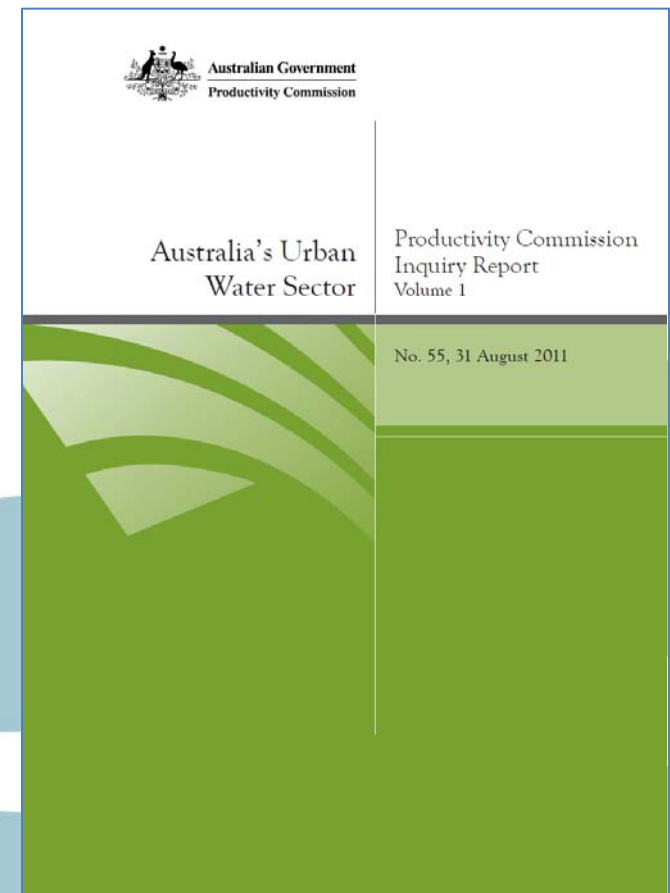
URBAN WATER INSTITUTIONAL REFORM




PRODUCTIVITY COMMISSION (PC)

Purpose...

To assist COAG to advance urban water reform by identifying pathways to achieve improved resource efficiency through reform of arrangements that govern the urban water sector



Stages in the process

1. Australian Government initiates an inquiry
2. Treasurer or Assistant Treasurer sends a reference to the Commission
3. Commission advertises the inquiry and calls for parties to register their interest
4. Commission visits interested parties, distributes an issues paper to focus attention on the issues it considers relevant and invites written submissions
5. Hearings or other consultative forums may be held
6. Draft report or position paper and invites comments
7. Hearings are usually held on this preliminary report
-  **8. A final report to the Government**
- 9. Departmental consultations are held and the report is considered by relevant Ministers**
- 10. Treasurer / Assistant Treasurer tables report in Parliament and may announce the Government's decision on the report at that time or at a later date**

WHAT'S 'BROKEN'...? PC IDENTIFIES 5 KEY PROBLEMS

- 1. Conflicting and inappropriately assigned objectives and policies.**
- 2. Lack of clarity about roles, responsibilities and accountabilities**
- 3. Too great a focus on water restrictions, water use efficiency and conservation**
- 4. Constraints on efficient water resource allocation and supply augmentation**
- 5. Too great a focus on addressing affordability by distorting prices**

THE PRODUCTIVITY COMMISSION: SOME FUNDAMENTALS

Scope

History

THE PRODUCTIVITY COMMISSION: SCOPE

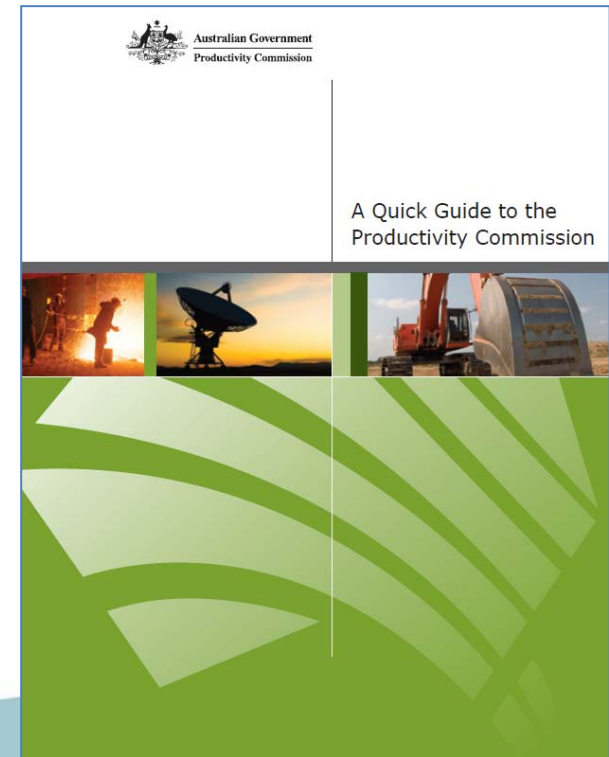
**Arm of the Federal Government
(reports to the Treasurer)**

Independent and Expert

Advisory

**Almost exclusive focus
on micro-economic reform**

'focus is on ways of achieving a more productive economy'



THE PRODUCTIVITY COMMISSION: SCOPE

Focus on ways of achieving a more efficient and productive economy

Wide range of reform issues with microeconomic dimensions

COAG's vehicle for maintaining impetus for implementing the 1995 National Competition Policy (NCP)

THE PRODUCTIVITY COMMISSION: SCOPE

Current

[Airport Regulation](#)

[Climate Change Adaptation](#)

[COAG Reforms](#)

[Early Childhood Development Workforce](#)

[Export Credit Arrangements](#)

[Regulation Reforms](#)

[Role of Local Government as Regulator](#)

[Retail Industry](#)

[Schools Workforce](#)

Recently completed

 [Urban Water](#) - August 2011

[Disability Care and Support](#) - July 2011

[Caring for Older Australians](#) - June 2011

[Emission Reduction Policies and Carbon Prices in Key Economies](#) - May 2011

[Business Regulation Benchmarking: Planning, Zoning and Development](#)

[Assessments](#) - May 2011

THE PRODUCTIVITY COMMISSION: HISTORY

From industry 'protection' to 'assistance' to 'productivity'
reflects changing economic paradigms nationally and internationally

1921 - Tariff Board

1973 – Industry Assistance Commission

1989 - Industry Commission

**(National Competition Policy (NCP)
framework agreed in 1995) through COAG
(Council of Australian Governments)**

1998 – Productivity Commission

THE PRODUCTIVITY COMMISSION

Urban water sector

What did it investigate?

How is this relevant to us?



URBAN WATER INSTITUTIONAL REFORM

Micro-economic efficiency in the urban water sector

What did PC investigate?

Objectives for the 'urban water sector'

Overview of Supply

Roles for Government

Pricing

Demand Management

Consumer Protection

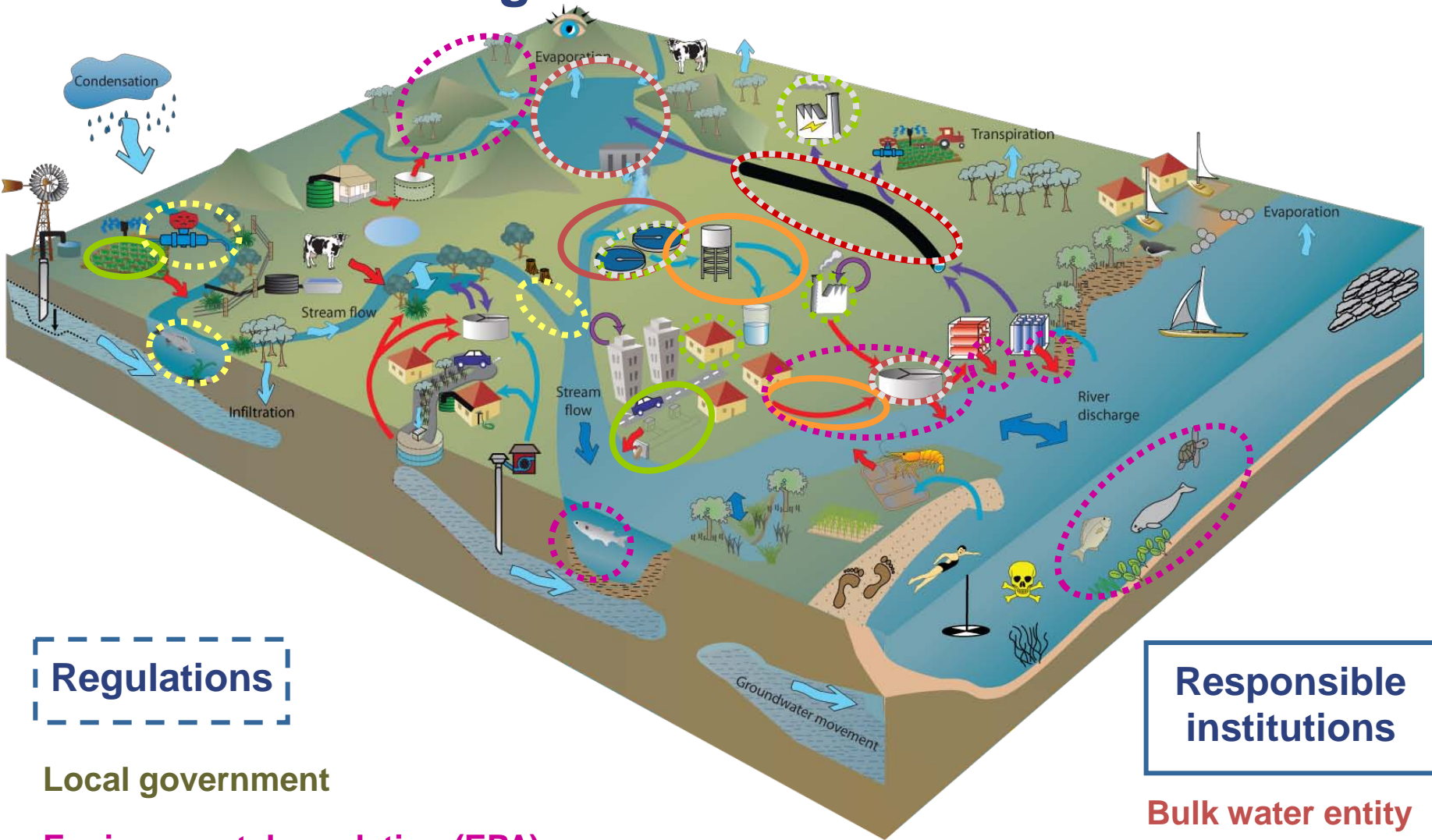
Institutional Reform

Implementation Timetable

Scope - 'urban water sector' defined as... 'delivery of the following services for urban areas':

- 1. planning, procuring and supplying water of appropriate quality to households, businesses and other consumers**
- 2. supplying water for amenity and environmental purposes within urban areas**
- 3. collecting, treating and disposing of wastewater**
- 4. managing stormwater for flood mitigation and other purposes**

Institutional Arrangements ??



Regulations

Local government

Environmental regulation (EPA)

Water quality regulation (NRW)

Public health regulation

Responsible institutions

Bulk water entity

Bulk transport

Distribution

Local government

Global Challenges, Local Solutions

**Record low
Inflows/Rainfall
already common**

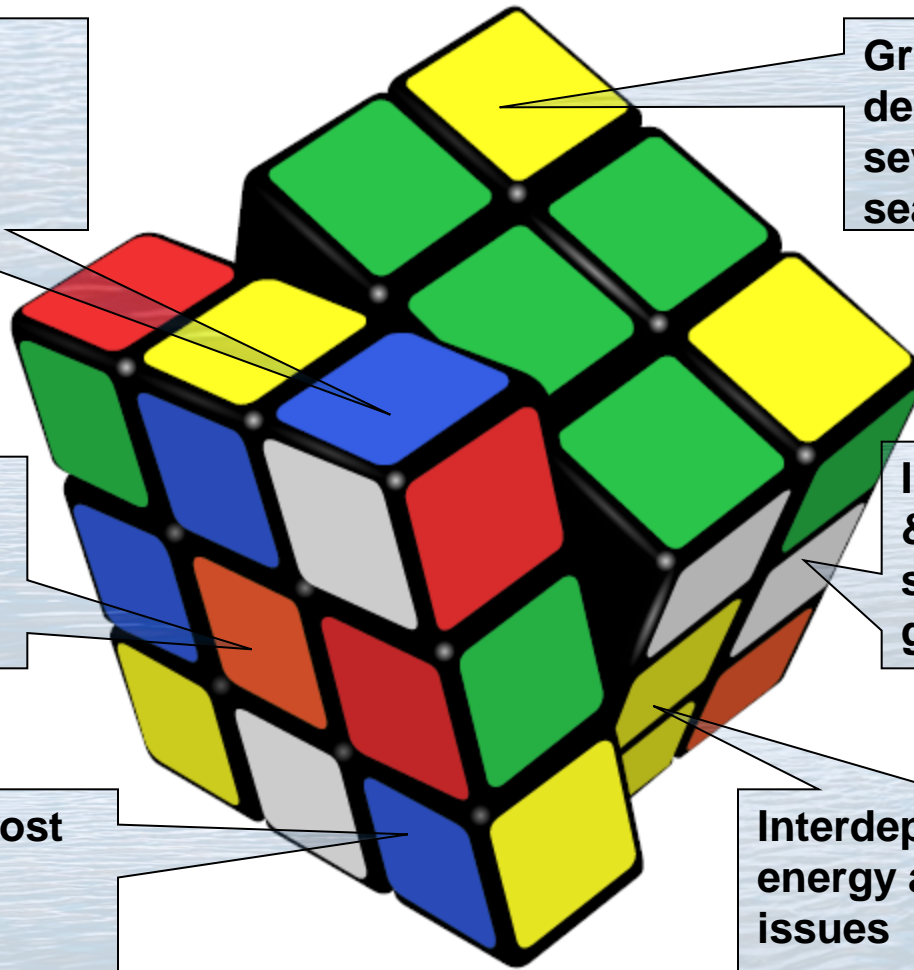
**Groundwater
depleted, under
severe stress, facing
seawater intrusion**

**Climate Change
impact on future
volatility and
quantum of inflows**

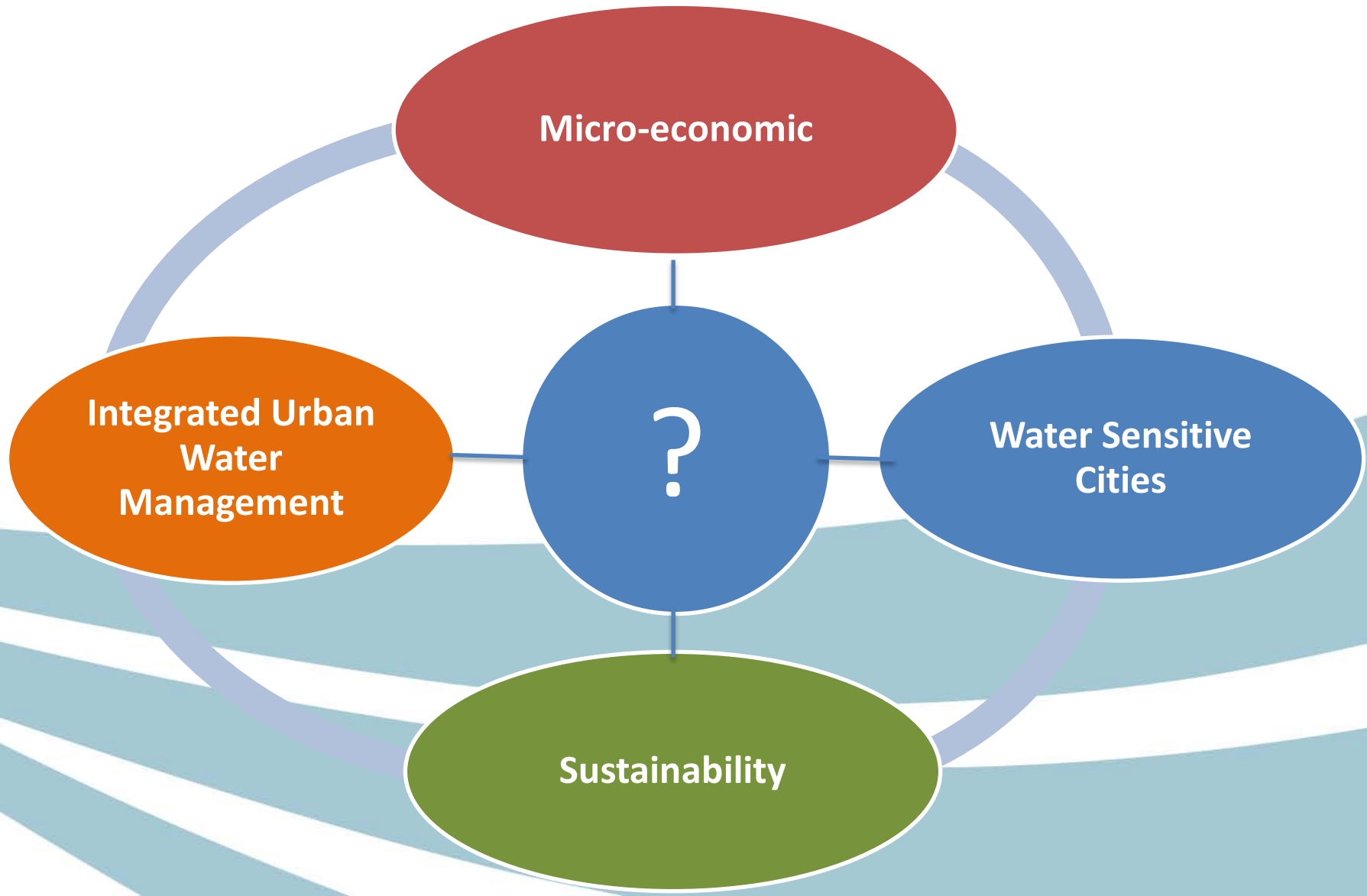
**Increasing Urbanisation
& challenges in
supporting lifestyle and
growth**

**Step change in Cost
of supply as new
sources adopted**

**Interdependency of
energy and water
issues**



URBAN WATER INSTITUTIONAL REFORM



THE PRODUCTIVITY COMMISSION

Key assumptions (explicit or implicit)

1. urban water is like all other utility services (gas, electricity, telecommunications). It does not have different characteristics a 'common / public good' or 'essential service'. The same principles of economic efficiency therefore apply
2. economic efficiency should be the urban water sector's primary objective (all other objectives will follow from this)
3. consumers are ultimately the best decision-makers in determining appropriate use of water (not governments)

Cont...

Key assumptions (explicit or implicit)

4. **pricing and consumer decisions will (by definition) deliver efficient use**
5. **competition in service provision will deliver operational and cost efficiency**
6. **the sector is there to deliver specific economic services (not wider resource management outcomes)**
7. **externalities need to be factored into pricing and measures of economic efficiency**

A REFORM PROGRAM IN TWO STREAMS

1 'High priority' [economic efficiency] reforms that are 'universally applicable'

2 Structural reform
- case-by-case assessment



1 High priority [economic efficiency] reforms that are universally applicable

Roles for governments

Setting the objective

Institutional arrangements and governance

Procurement of supply / water resource allocation across the water cycle

Water restrictions

Water use efficiency and conservation

Pricing

Affordability

Public health, environmental protection and economic regulation

Service delivery by utilities

Prices oversight

Consumer protection

Regulatory institution

2 Structural reform — case-by-case assessment

- Large metropolitan utilities
- Regional utilities in NSW and Qld
- State Water Corporations in SA, WA, NT

CHAPTER 13 REFORM IN REGIONAL AREAS

Critical issues confronting the regional water sector:

1. Financial performance

- **Published estimates of full cost recovery**
- **Misreporting**

2. Skills shortages

3. Compliance with public health and environmental regulations and standards

4. Regulatory and administrative burden

FINANCIAL PERFORMANCE

Finding 13.1 – not full cost recovery

A significant number of regional water utilities in New South Wales, Victoria, Queensland and Tasmania are not fully recovering costs (including capital costs).

Based on publicly available financial indicators, the incidence of under-recovery of costs is more pronounced than a number of government agencies suggest, due to the way that full cost recovery is defined and assessed by those agencies.

SECTOR STRUCTURE

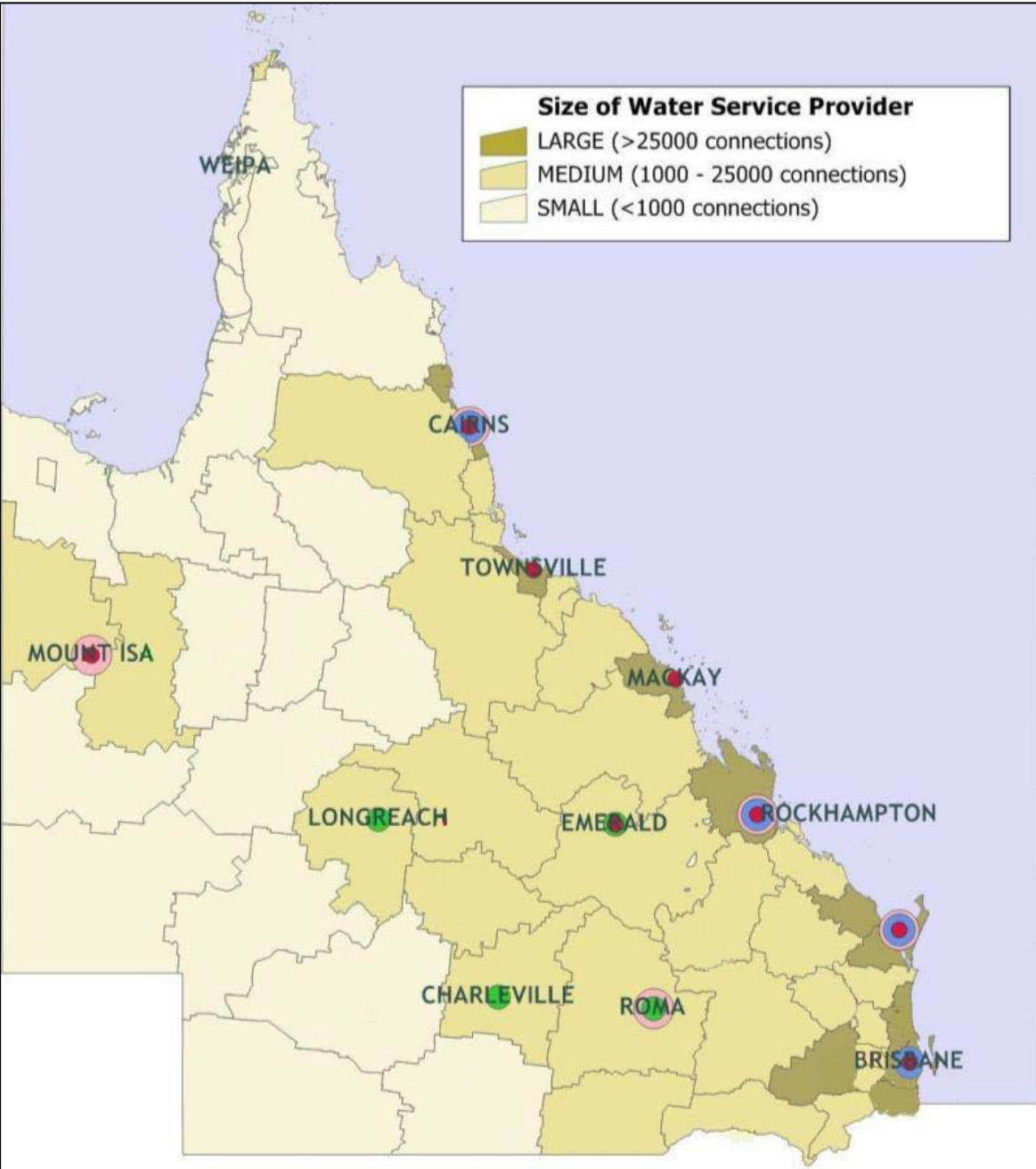
In regional QLD + NSW

There is scope to achieve material efficiency gains in areas of regional New South Wales and Queensland by either aggregating utilities or establishing regional alliances.

State Governments, in consultation with Local Governments, affected communities and other parties should determine the precise approach to reform.

Queensland

- 77 drinking water service providers
 - Inside SEQ - 6
 - Outside SEQ - 71
 - 11 large
 - 26 medium
 - 34 small
- 353 drinking water supply schemes



SECTOR STRUCTURE

In SA , WA and NT

There has been little analysis of the costs and benefits of retaining the large public water corporations in South Australia, Western Australia and the Northern Territory, relative to adopting a more disaggregated approach. Relevant State and Territory Governments should undertake this analysis and publicly report on the findings.

p337

TWO OPTIONS (Qld and NSW)

1 horizontal aggregation

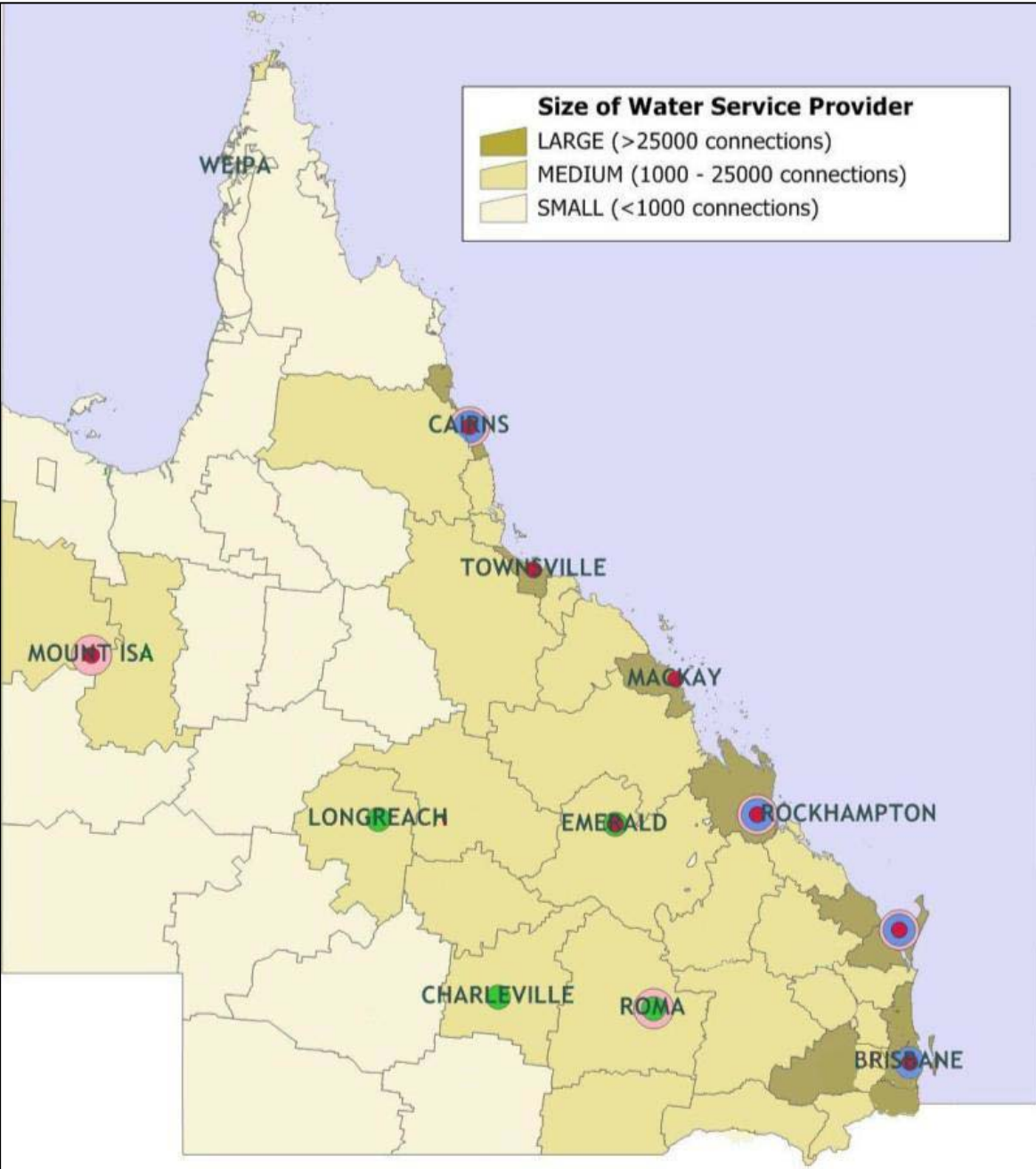
**(multiple regional water utilities to form larger utilities)
(either a regional water corporation or a county council).**

2 regional alliances

**(would deliver some of the economies of scale benefits of
option 1 without requiring a fundamental restructure of
Local Government water utilities)**

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BENEFITS AND COSTS

BENEFITS

Economies of scale efficiencies

Addressing skills shortages

Reduce transaction costs

'Yardstick' competition

Economies of scope

COSTS

Financial implications for local councils

Job losses and other community impacts

IMPLEMENTING THE REFORM PACKAGE

Suggested Timetable

end 2012....

New Intergovernmental Agreement on Urban Water through COAG committing each jurisdiction to:

- implementing the universally applicable reforms identified by the Commission
- determining the case for reform and, where appropriate, implementing structural reform

end 2013

- implement universally applicable reforms
- assessment of the business case for structural reform

end of 2015

- complete structural reform process (where a favourable case is identified)

IMPLEMENTING THE REFORM PACKAGE

Suggested Roles proposed by PC

COAG (Council of Australian Governments)

- national coordination
- ensure nationally consistent approach to policy and administration
- adopt agreed set of sector objectives (in new Agreement)

State and Territory Governments

- implement universal reforms
- commence review of structure

NWC (National Water Commission)

- monitoring implementation against new Agreement

IMPLEMENTING SECTOR REFORM...Some questions

What role for professional associations – AWA?

- State and National?

How are the myriad of institutional reform 'agendas' integrated?

Are there fundamental incompatibilities that need to be resolved? Who, When, How?

Who is coordinating...?

- at Federal Government level (Dept SEWPAC or NWC?)

- at State Government level in Qld (DERM?)

-at Local Government level in Qld

How best can Local and State Governments in Qld work together to agree on implementation of both reforms ?