

**Senate Rural and Regional Affairs and Transport References  
Committee  
Inquiry in to Water Policy Initiatives**

**NWC Submission**

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## Introduction

This document is designed to provide an overview of the National Water Initiative (the Initiative) and the activities with which the NWC is involved to further national water reform consistent with the Initiative. The Paper provides a short background including the recent history of water reform, and the expectations on signatories to the Initiative to implement the Agreement.

Information on the mechanisms for implementing the Initiative's commitments, both nationally and by signature jurisdictions, is also provided including an overview of the reporting requirements embedded within the Initiative and the processes adopted to ensure these are met.

The report follows with some greater detail on a number of high priority issues being addressed through the Initiative that are relevant to the Terms of Reference for the Rural and Regional Affairs and Transport References Committee's inquiry. These issues include: water entitlements, water resource planning and management, water trading, accounting and water pricing.

## Background

The National Water Commission was established through the *National Water Commission Act 2004*. The primary responsibilities of the Commission include to assist signatory jurisdictions with the implementation of the National Water Initiative, advise the Prime Minister and COAG on water issues and the administration of the Australian Government Water Fund.

The National Water Initiative is a COAG-developed intergovernmental agreement, which the majority of first Ministers signed in June 2004 (Tasmania June 2005, Western Australia yet to sign). The Initiative establishes a blue-print for progressing national water reform.

The COAG 1994 Water Reform Framework commenced the process of national water reform in Australia. In April 1995 the assessment of progress against these water reform commitments was made subject to annual National Competition Policy assessment.

Further, the water reform framework was extended in 1997 to include commitments relating to stormwater and ground water management. It is clear from this history that the Initiative has not been developed in isolation but builds on an extensive reform agenda. The Initiative outlines clearly the commitments and timeframes for completion of actions through until 2014. However, the majority of commitments are to be completed by 2011.

Once fully implemented the Initiative will result in nationally-compatible, market, regulatory and planning based systems for managing surface and groundwater resources for rural and urban use that optimises economic, social and environmental outcomes. This will be achieved through:

- clear and nationally-compatible characteristics for secure *water access entitlements*;
- transparent, statutory-based water planning;
- statutory provision for *environmental and other public benefit outcomes*, and improved environmental management practices;
- complete the return of all currently overallocated or overused systems to *environmentally-sustainable levels of extraction*;
- progressive removal of barriers to trade in water and meeting other requirements to facilitate the broadening and deepening of the water market, with an open trading market to be in place;
- clarity around the assignment of risk arising from future changes in the availability of water for the *consumptive pool*;
- water accounting which is able to meet the information needs of different water systems in respect to planning, monitoring, trading, environmental management and on-farm management;
- policy settings which facilitate water use efficiency and innovation in urban and rural areas;
- addressing future adjustment issues that may impact on water users and communities; and
- recognition of the connectivity between surface and groundwater resources and connected systems managed as a single resource.

## **The National Water Commission**

The National Water Commission has been established through the National Water Commission Act (2004): to advance the National Water Initiative – effectively to drive the water reform agenda nationally; to advise the Australian Government and COAG on water issues and NWI implementation; and administer the Australian Government Water Fund.

The Commissioners ([Attachment A](#)) were appointed on 10 March 2005. Mr Matthews was appointed as Chair of the Commission and CEO of the Agency. Three Commissioners were recommended by the States and Territories and three by the Australian Government. Mr Matthews was nominated as Chair by the Australian Government in consultation with the states and territories. The Commission has met nine times in 2005. The Commission meetings are generally held in locations outside Canberra and include a site inspection visit of relevant activities those locations and meetings with/presentations from local officials and water industry representatives.

In the first twelve months since the passing of the legislation there have been some significant achievements including:

- Establishment of a new organisation from the ground up including appointment of approximately 40 officers;
- Publication of guidelines for the Water Smart Australia Programme;

- Development and recommendation of twelve first phase projects totalling \$336M of funding spread over 5 states and territories;
- Issuing of a public call for the first round of Water Smart Australia proposals, and assessments undertaken and recommendations made to the Prime Minister on many of them already;
- Establishment of the Commonwealth State NWI Committee under the Natural Resources Management Ministerial Council;
- Assistance with the above Committee to develop a set of NWI Performance Indicators against which to measure the longer term success of the implementation of the NWI;
- Finalisation of guidelines for developing NWI Implementation Plans by signatory jurisdictions;
- Publication of the framework for the 2005 assessment of the National Competition Policy and significant progress toward assessment of state and territory progress in implementing the water reform agenda;
- Release of the tender for the Baseline Assessment of Australian Water Resources;
- Design of the Raising National Water Standards Program;
- Significant progress in establishing new arrangements for performance benchmarking for water service providers;
- Collaboration with states and territories to achieve national compatibility of water entitlement registers;
- Launched, through a national workshop in June, efforts to progress a national accounting framework;
- Commenced the distribution of regular email news letter (*'Distilled'*) that outlines on water reform progress and updates readers on water reform progress and activities of the Commission.
- Meetings with over 200 stakeholders; and
- Presentations to more than 30 conferences on the NWI and water reform in Australia.

A Commission focus is to work together with states, territories, industry, and the community to steer the implementation of the water reforms, make strong networks, and to clarify and refine the role of the NWC within the broader water management arena in Australia.

## **National Water Initiative Implementation**

The effective implementation of the NWI commitments is central to achieving the water reform agenda in a nationally consistent manner. A number of administrative arrangements have been established to achieve this outcome. These arrangements include:

- a clear foundation that *signatory jurisdictions' have responsibility* for implementing the NWI;
- mechanisms to achieve *collaborative action* between jurisdictions, including the NWI Committee and its Implementation Work Plan to identify leadership on each of the NWI's collaborative actions;
- establishing *baseline information* against which to measure the NWI's progress; and

- clear *reporting requirements* and processes.

Each of these arrangements is discussed briefly below.

### ***Jurisdictional Responsibility***

The jurisdictions' signatory to the Initiative have the responsibility to implement the actions and meet the timelines. This includes the Australian Government as a signatory. The Initiative includes over 70 specific actions the implementation of which are the responsibility of the signatories – both individually and corporately.

### ***Collaborative Action***

Central to the implementation of some 30 of the 70 actions is the requirement to deliver a product or outcome that is nationally compatible or consistent. National collaboration is necessary to ensure a nationally consistent outcome.

A number of processes have been adopted to ensure these objectives are met consistent with expectations. Central to these are the Ministerial Council processes and their associated supporting committee structures.

Under the Natural Resources Management Ministerial Council (NRMMC) a National Water Initiative Committee (NWI Committee) has been established in part to achieve this objective. The NWI Committee includes representatives from both the Environment Protection and Heritage (EPHC), and Primary Industry (PIMC) Ministerial Councils' committees. The NWC is also represented on the Committee.

The NWI Committee has developed an NWI Implementation Work Plan (Attachment B) that identifies specific entities that have a leadership role in delivering against the collaborative actions. The National Water Commission, EPHC, NRMMC and individual jurisdictions have been identified as providing this leadership role for various components of the work plan. The work plans of the NRMMC and EPHC were endorsed by their recent council meetings (25 and 26 October 2005 respectively).

Central to the effective Implementation of the NWI is jurisdictions' ability to meet their commitment and timelines. To ensure this is achieved, an early commitment within the Initiative is the development, by all signatories of an Implementation Plan for accreditation by the NWC. Implementation Plans are to identify the actions, major steps, and timeframes for meeting the NWI commitments.

The NWC has played a strong role of shepherding the jurisdictions and providing advice and feedback on issues raised by states and territories as they develop their plans. Activities undertaken by the NWC to date have included the preparation and release of the paper *Guidance on the Preparation of Implementation Plans for the National Water Initiative* (Attachment C) designed to assist jurisdictions in plan preparation.

There has been significant progress on the development of Implementation Plans to date including the NWC having received draft plans from all signatory jurisdictions except Tasmania (anticipated as Tasmania was a late signatory). These drafts have been assessed by the NWC and Commissioners and comments provided back to jurisdictions. While few jurisdictions have yet provided final Plans we are regularly advised on progress. Consultation with peak stakeholders on these Plans is an

accreditation requirement and not all jurisdictions had clear consultation processes identified at the time of receipt of their draft Plans.

To assist all jurisdictions achieve their collaborative outcomes the NWI Committee has also developed a series of common statements outlining the processes, activities steps and timeframes required of jurisdictions to meet these collaborative actions. These 'common statements' will be incorporated within each jurisdiction's Implementation Plan. The Implementation Plans are anticipated to also include any additional, jurisdiction specific activities that will be required to ensure the NWI objectives surrounding these collaborative actions are also met.

We anticipate final Plans being considered for accreditation in February/ March 2006.

### ***Baseline Assessments***

The NWC is required to undertake baseline assessments of both water resources and water governance arrangements. This will provide a useful benchmark against which to measure progress in achieving the Initiative's objectives.

The NWC has recently released tender specifications for undertaking the Baseline Assessment of Water Resources. The assessment is expected to be completed in mid 2006. The selection of the consultant to undertake this work is currently under way.

The collection of information relevant to the Baseline Assessment of Governance Arrangements is occurring in tandem with the National Competition Policy Assessment. It was recognised that the information required for a baseline assessment would overlap significantly with that required for the NCP assessment. The compilation of the information to develop the baseline will be undertaken following the completion of the NCP assessment early in 2006.

### ***Reporting requirements***

The Initiative includes a number of specific reporting responsibilities:

- The NRMCMC is required to provide an annual report to COAG on progress with action being undertaken by jurisdictions in implementing the Initiative. The Ministerial Councils in October 2005 endorsed the reporting framework (Attachment D) that identified progress by each jurisdiction including identifying the milestones that have failed to be met, and issues of concern nationally with regard to NWI Implementation.
- The NWC, commencing in 06-07, will provide biennial assessments of progress with implementation of the Initiative and whether the NWI outcomes are being achieved.
- The Initiative also requires the NRMCMC to develop, in consultation with the NWC, a set of performance indicators against which progress, specifically at the 2010–11 biennial assessment, can be assessed. The Performance Indicators have been developed through the NRMCMC processes and endorsed by both the NRM and EPH Ministerial Councils at their October 2005 meetings. The indicators are currently being trial populated and refined accordingly. It is also anticipated that the indicators and data

collected to address them will be utilised prior to the 2010-11 assessment where appropriate and feasible.

In addition to these reporting requirements for the NWI as a whole, there are reporting requirements embedded as commitments within the NWI itself, including:

- public reporting on water service providers performance using a nationally consistent framework;
- reporting against the achievement of environmental outcomes in water plans;
- an ongoing commitment to transparent prices oversight; and
- a specific commitment to monitor the impact of water trade in the southern Murray Darling Basin.

## **Water Resources Planning and Management**

A central component of the Initiative is a requirement for jurisdictions to establish a clear water management planning framework to provide for environmental water requirements, and to support environmental entitlements and trade.

The NWI requires jurisdictions to implement planning arrangements that provide a statutory basis for provision for environmental water requirements and other public benefit outcomes and includes protection of high conservation value systems or reaches. These planning arrangements underpin the provision of entitlements to the consumptive water pool while ensuring sufficient water for environmental requirements is maintained.

Within many jurisdictions there remain water systems (both surface water and groundwater) that are overallocated and or overused. (Overallocated systems are those where existing entitlements provide for the extraction of water to a level that does not provide for adequate environmental flows, and overused systems are those where the water actually extracted is in excess adequate environmental flows.)

As with the previous COAG water reform framework, the Initiative requires jurisdictions to return all overallocated or overused systems to environmentally sustainable levels of extraction as a matter of urgency within the planning framework.

Additionally, the Initiative provides that the water management plans will recognise the connectivity between surface and ground water resources and that connected systems will be managed as a single unit.

Other important components of the water management planning framework are to ensure the planning process is based on best available science, adopts an adaptive management approach, and includes adequate stakeholder consultation.

Each jurisdiction's Implementation Plan will identify the proposed timeline for completion of their planning processes and ongoing review arrangements. Similarly

the NCP assessment currently underway will consider and advise on the consistency of the current arrangements with water reform requirements.

While water planning and management are first and foremost a state and territory responsibility, the NWC is assessing jurisdictions' current processes and achievements as part of the 2005 NCP assessment of water reform. Results of that process are expected to be made public in the first quarter of 2006.

## **Water Entitlements**

The Initiative recognises the importance of a secure, compatible entitlement framework to underpin water planning, management and trade. The Initiative has specific requirements of the jurisdictions including that consumptive water will require access entitlements separate from land and to be described as a perpetual or open-ended share of the consumptive pool of a water system.

There are a number of additional requirements for access entitlements including that they be: transferable – i.e. able to be traded, given, bequeathed or leased; able to be subdivided or amalgamated; and are mortgageable.

The entitlements need also to be integrated with the water management plan for the region and clearly outline responsibilities and obligations on of the entitlement holder.

All jurisdictions have been working to establish these arrangements and are, appropriately, adopting approaches to achieving these requirements consistent with State management arrangements.

The Initiative commits signatory jurisdictions to incorporate these requirements into their legislative and administrative regimes by 2006. Through the Implementation Plans and ongoing biennial assessments, the NWC will ensure that the arrangements and delivery schedules for planning and entitlement arrangements are consistent with the Initiative.

## **Water Trading**

Similarly a core component of the Initiative is to establish the framework to facilitate water trade and create a fully functioning water market between sectors, and between jurisdictions where water resources are shared. The current level of trade around the country is difficult to determine with the most reliable information restricted to the Murray-Darling Basin (see the Murray Darling Basin Commission Submission to this inquiry for more detail). The data demonstrates there has been a significant increase in the volume of temporary trade over the last decade but little increase in permanent trade which suggests that a market exists but barriers to full implementation remain.

There are a number of preconditions for an effective water market. These are clearly outlined within the Initiative and include compatible, publicly accessible and reliable registers of all water entitlements. The Initiative commits all jurisdictions



to make significant progress in this area over the period 2004 to 2006. The NWC is actively working with signatory jurisdictions to this end.

The Initiative includes requirements to remove barriers to both permanent and temporary trade - temporary trade barriers to be removed immediately and barriers to permanent trade out of water irrigation areas up to an annual threshold of 4% (of irrigation areas' total water allocation) to be removed immediately and to allow full and open trade by 2009.

The Initiative also includes specific requirements for southern Murray Darling Basin states and the Commonwealth to take all steps necessary to enable exchange rates and/or tagging of water access entitlements traded from interstate sources to buyers in their jurisdiction. As with other jurisdictions, the NWI actions in respect of the southern Murray Darling Basin are based on a measured increase in the amount of trade (to enable trade in permanent entitlements up to a threshold of 4%).

Although progress is being made, it is unclear whether current collaborative action will be sufficient to meet the commitment to open up water trade in the southern Murray Darling Basin. The NWC has written to relevant jurisdictions underscoring the importance of the NWI commitments and urging them to take the action required to meet them. This approach is consistent with NWC responsibilities of facilitating, advising and reporting on implementation progress. The NWC intends to continue to adopt such an approach to pursue achieving the Initiative's trading commitments.

The leadership role with regard to trading is at present being undertaken by the Department of the Prime Minister and Cabinet, especially in regard to the southern Murray Darling Basin trading commitments.

The National Water Commission is also playing a role in helping jurisdictions to meet their commitment to nationally compatible water entitlement registers in order to facilitate trade. The NWC has led extensive work with jurisdictions to identify the requirements of compatible registers and what actions are required by each jurisdiction to achieve the compatibility necessary to meet NWI outcomes.

## **Water Accounting**

The Initiative recognises the need for improving the way Australia's water resources are measured, monitored and reported. Accurate water accounting is necessary to know how much water there is, where it is, what it is being used for and who is using it. An understanding of the water we have is important if we want to be able to make decisions to use that resource in a sustainable way. Accurate accounting practice will underpin trade, leading to the more efficient allocation and use of water and to more cost effective investment in water infrastructure.

Water accounting will only be as good as the data it uses. At the moment, there is a wide range of measurement and metering arrangements and activities across Australia. Having and applying national standards for measurement and metering — including knowing the degree of accuracy of each measurements

system — will be a crucial step in developing nationally compatible water accounting systems.

The first major step in implementation of the water accounting commitments now underway, is to benchmark the current water accounting systems to identify the existing systems' gaps and strengths.

To build momentum for these reforms, the Commission in June 2005 held a high level workshop of state and territory government representatives, industry and conservation associations and members of the science and research community. A report on the workshop is provided at [Attachment E](#). The Commission also convened an expert roundtable on water accounting to help set the strategic direction for establishing a national water accounting framework.

## **Water Pricing**

A final commitment within the Initiative is to establish best practice pricing and associated institutional arrangements to promote economically efficient and sustainable use of water resources and water infrastructure assets.

Commitments include particularly to move to consumption based pricing in rural and urban systems, and to ensure consistent approaches to pricing and attributing costs of water planning. It is recognised that the market also will be crucial to influencing the price of water and that it will vary according to supply security, supply arrangements and location.

The Ministerial Council work plan recognise the NWC as providing leadership to ensure jurisdictions achieve consistent approaches to determining water prices. To this end, to date the NWC has held a technical focus group to establish priorities for achieving consistency and is shortly to engage jurisdictions to determine ways forward for progressing the NWI consistency commitment.

The NWC has established a Roundtable Group to address the development of a nationally consistent framework for benchmarking pricing and service quality for metropolitan, non metropolitan and rural water delivery agencies. Following two Roundtable meetings a core set of draft performance indicators are under development. Further, consideration of auditing and reporting arrangements and industry consultation is recognised as being required before the framework can be finalised.

## **The Australian Government Water Fund**

The National Water Commission also has responsibility for administering the Australian Government Water Fund (AGWF). The AGWF is a \$2 billion programme to invest in water solutions for current and future generations. The fund aims to support practical on-ground water projects that will improve Australia's water efficiency and assist with the implementation of the NWI and nation-wide water reform. The AGWF comprises three programmes: Water Smart Australia;

Raising National Water Standards; and The Australian Government Water Fund Community Grants Programme.

The National Water Commission administers both the Water Smart Australia and Raising National Water Standards programmes. The Department of Agriculture, Fisheries and Forestry and The Department of Environment and Heritage jointly administer the Community Water Grants programme. More information on that program should be available in the submission to this Inquiry provided by those Departments.

The Water Smart Australia Programme (\$1.6 billion) has been established to accelerate the development and uptake of smart technologies and practices in water use across Australia. The Raising National Water Standards programme (\$200 M) aims to assist the development of the necessary tools for good water management in Australia particularly to direct investment to enhancing our capacity to measure, monitor and manage our water resources.

The call for projects under the first round under the Water Smart Australia Programme closed on 30 June 2005 and many projects are currently under active investigation with announcement anticipated in the near future. Attachment F identifies projects announced to date. The Raising National Water Standard Programme arrangements are currently being finalised. It is intended to be a more strategic investment stream, with calls for tender for identified priority areas of activity, rather than a general call for projects within generic guidelines, as are the other programmes.

## **Challenges for the NWC and NWI implementation**

Water reform, by its very nature, is a challenging task for governments, water users and communities. There are complex inter-relationships between the hydrological and environmental aspects of the water resource – including surface water, groundwater, freshwater ecology, and overland flow. In addition, there are complex inter-relationships between just about every aspect of water management, including water planning, water accounting, trading, pricing, and overallocation. This means that, in pursuing a water reform agenda, every reform element is necessary but no one element is sufficient to achieve the desired outcomes.

Against this backdrop, the National Water Commission is very conscious of the need for the NWI to bind the different elements of water reform together in a way that achieves the overall objectives of the Initiative. The Commission is also keenly aware of its own role in maintaining the momentum and direction of reform through its roles in monitoring NWI governments' reform progress, facilitating reform by working with these governments to help them implement the NWI, and administering investments under the Australian Government Water Fund.

These roles are still developing in practice, and it is a major ongoing challenge for the National Water Commission to tailor its role to best achieve the outcomes of the NWI.

In implementing the NWI, there are also real challenges for NWI signatory governments. A sample of these is discussed below.

The sequencing of reform activity within jurisdictions and between jurisdictions is an important issue in implementing the NWI, for at least two reasons.

Firstly, good sequencing will help to ensure that foundational reforms are made first to underpin later reforms. For example, it is clear that improved water resource accounting, measurement and monitoring is required to underpin better water planning and growing opportunities for water trading. It is, in part, for this reason that the Commission views the water accounting actions under the NWI as such a high priority.

Secondly, good sequencing can help to smooth the adjustment path in moving to new water planning, regulatory and market arrangements. As with any reform agenda, there will be changes which are perceived as delivering favourable outcomes to some interests (water users, communities, environmental interests, governments) and less favourable outcomes to others. The sequencing of reform activity within jurisdictions and between jurisdictions is important in helping to offset the real and perceived 'costs' of reform to a range of interests with the benefits of that reform.

For example, the NWI seeks to ensure that greater resource security is achieved to help improve the overall value of an entitlement, even in the face of a reduction in water allocation to move to sustainable water extraction levels. Likewise, effective water trading is important to enable water access entitlement holders to realise the value of their water, especially when they are required to face greater cost recovery for water planning and management.

The importance of sequencing the delivery of reform components will be an ongoing consideration for the NWC. It will be a matter considered in the accreditation of NWI Implementation Plans, and in biennial assessments. Similarly the effectiveness with which individual jurisdictions undertake reform in partnership with the community and industry sectors has a significant impact on the sequencing and effectiveness of implementation.

A particular challenge will also be in achieving genuine national outcomes where jurisdictions have already set in place their own specific and disparate water management arrangements. For example, urban water management has been identified as an area where the NWI actions need to be better integrated. The NWC is currently working with jurisdictions to achieve better coordination of activities to meet this part of the NWI. As noted earlier, compatible arrangements to allow effective interstate trading of water will also require considerable effort over time. Likewise, actions under the water interception element of the NWI require further policy development by states to realise the NWI commitment of bringing major interception activities into the water planning and entitlement framework.

A further challenging commitment within the NWI is to integrate groundwater and surface water systems where the systems are interconnected. There is currently inadequate information on groundwater to bring this commitment into wide effect and many existing water management arrangements are not well placed to address groundwater issues. The NWC has recognised this as an important issue. The baseline assessment of water resources will contribute to scoping the gaps in

knowledge about groundwater. Further, as a step, a roundtable involving Commissioners and groundwater experts was held on 6 December 2005 to explore the current circumstances, and identify where the NWC might move this forward.

## **Conclusion**

The National Water Commission has a central role to play within the delivery of national water reform across Australia.

Many of the issues raised in the Committee's Terms of Reference are addressed in the National Water Initiative - a COAG Intergovernmental Agreement the actions to implement which are the primary responsibility of signatory jurisdictions.

The Initiative itself is a blueprint for the implementation of national water reform. The challenge ahead of both the NWC and the signatory jurisdictions is to meet the agreed timelines and, for the many collaborative tasks, to achieve the necessary national consistency and compatibility to ensure a genuinely national approach to water reform is achieved.

The NWC recognises that there remain a number of particularly challenging issues. The Commission considers, however, that much has been achieved in the short time since the appointment of Commissioners in March 2005. We are confident that institutional mechanisms are already in place, and real partnerships are being built, to meet these challenges.