

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

NWC PROGRESS UPDATE

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Introduction

This document is provided to support the National Water Commission's submission to the Inquiry in recognition that there has been significant progress on a number of implementation activities since the initial submission was provided. The document provides dot points updating progress and follows the structure of the previous submission (focusing on some areas of higher priority that are relevant to the Terms of reference of the Senate Inquiry), to enable easy determination of those areas where progress has been made and what is the current status of NWI Implementation progress.

Background

- All jurisdictions have now signed the NWI. The last to sign was Western Australia that signed up on 6 April 2006.
- COAG met 14 July 2006 and received a report on NWI progress from the NWC (Attachment A) the COAG Communiqué noted that COAG reaffirmed their ongoing commitment to the continuing water reform agenda as expressed in the National Water Initiative (NWI) and agreed that the resources and efforts need to be prioritised to deliver six fundamental reform elements of the NWI:
 - conversion of existing water rights into secure and tradable water access entitlements;
 - completion of water plans that are consistent with the NWI through transparent processes and using best available science;
 - implementation of these plans to achieve sustainable levels of surface and ground water extraction in practice;
 - establishment of open and low cost water trading arrangements;
 - improvement of water pricing to support the wider water reform agenda; and
 - implementation of national water accounting and measurement standards, and adequate systems for measuring, metering, monitoring and reporting on water resources.
- An outcome of the NRMCC Meeting (16 June 2006) in recognition of the national coordination required on water matters was to establish a meeting of Water Ministers to meet in at the same time as future NRMCC meetings. The next meetings are scheduled for 24 November 2006.

The National Water Commission

- The 2005-06 Annual report (NWC's 2nd Annual Report) was released on 17 October 2006.
- The Raising National Water Standards Programme was launched on 16th June 2006. The Programme contains two separate pathways, one a Commissioned Pathway and the other a Call Pathway. On that date a number of Commissioned Projects were announced as was the call for applications under the Call Pathway (Applications closed 15 September). To date 17

projects have been announced under the Commissioned Pathway and Applications under the Call Pathway are currently being assessed.

- Two project calls have now been held for the Water Smart Australia programme. (See additional Information following)
- A key initial task under the NWI is for jurisdictions to prepare an NWI Implementation Plan and for these to be accredited by the NWC. To date all jurisdictions apart from Western Australia have submitted a plan for the NWC consideration and all are accredited apart from the Northern Territory where final consultation on the plan is underway.
- The NWC was required to undertake the final (2005) National Competition Policy Assessment of jurisdictions performance. The report - *2005 National Competition Policy assessment of water reform progress* was released 30 June 2006. The recommendations of that report included recommendations to impose suspended penalties on a number of jurisdictions which were adopted by the Australian Government.
- The development of a *Nationally consistent framework for reporting performance of water delivery agencies* continues. Separate models for reporting the performance of urban and rural water delivery agencies are being developed; when taken together, these will form a consistent national framework. The urban performance reporting model has been finalised, with reporting on the national urban performance indicators underway in this financial year. Consultation is currently occurring on the proposed rural performance reporting model with reporting on the national rural performance indicators expected to begin from 1 July 2007.
- The NWC has been progressing the development of the Baseline Assessment of Water resources through the Australian Water Resources 2005 (AWR2005) and the Australian Water Resources Information System (AWRIS). More information follows in the NWI Implementation Section.
- The NWC is also undertaking additional work on both the Entitlements and Water Accounting commitments under the NWI. Further information is provided below.

National Water Initiative Implementation

Jurisdictional Responsibility

Jurisdictions have developed NWI Implementation Plans (all except Western Australia who is actively developing its Plan) outlining what actions and when are to be undertaken to deliver the NWI. The Final plans have been loaded on NWC and jurisdiction websites. This provides a basis for jurisdictions to guide implementation activities and a valuable resource for stakeholders to monitor actual implementation progress against expected delivery timelines.

Collaborative Action

Under the NWI Committee structures (established under the Natural Resources Management Ministerial Council) a number of Working Groups/ Steering Groups or other collaborative delivery mechanisms have been established including:

- Accounting Group
- Metering Expert Group

- Pricing Steering Group
- Benchmarking Working Group
- Joint Steering Committee on Water Sensitive Cities and the Urban Water Advisory Group (established in association with the EPHC Committee processes)

Baseline Assessments

Australian Water Resources 2005 is the National Water Commission's baseline assessment of Australia's water resources in 2004–05 (the first year of the National Water Initiative). It will synthesise information at the national scale to increase the understanding of Australia's water resources, and identify knowledge gaps that reduce Australia's ability to manage water resources effectively and sustainably.

Australian Water Resources 2005 has two levels of assessment:

- Level 1 assessment; provides high-level performance indicators of Australia's water management, based on information provided by the states and territories. This assessment is complete and available at <http://www.water.gov.au>.
- Level 2 assessment; due for completion at the end of 2006 this will provide data, analysis, and discussion to progress understanding of water availability, water use, and river and wetland health. Products of the Level 2 assessment will include:
 - integrated surface water and groundwater balances for 50–70 priority catchments, capital cities, basins and regions
 - comprehensive statistics on water use in 2004–05
 - a new framework for a national assessment of river and wetland health, building on existing state approaches.

A key opportunity and task into the future is to make AWR 2005 repeatable and to develop a process whereby future data can be collated from jurisdictional agencies and other sources using web-based technologies. To address this issue AWR 2005 is also scoping the detailed user requirements and workplan to establish an Australian Water Resources Information System (AWRIS).

AWRIS is intended to become an enduring asset that provides the infrastructure and tools to deliver reports that will provide real time access to water resources data and ultimately aggregated water accounts.

Reporting requirements

As outlined earlier a key report required has been the delivery of the 2005 National Competition Policy Report undertaken by the NWC.

The processes for ongoing biennial assessment of progress against the NWI (CI 106) are under development and the first report is expected by mid 2007.

Regular reporting to COAG has been undertaken both through the Ministerial Council processes and directly to COAG. All COAG meetings since signing of the NWI have included a report on Water Reform Progress.

The development of Performance Indicators against which to measure NWI Implementation outcomes has been progressing and the indicators are currently being trailed for their suitability. It is anticipated that information against these Indicators will be incorporated in Annual and Biennial reporting when the information becomes available and/ or trends become evident.

Urban Water Reform Commitments

Developments in urban water include the establishment of the Joint Steering Committee on Water Sensitive Cities (JSCWSC) to accelerate the implementation of NWI paragraph 92 actions, and the Urban Water Advisory Group.

The JSCWSC has made progress on a number of areas and is undertaking work to progress an evaluation of Water Sensitive Urban Design, and an issues paper will be developed to review submissions on incentives provided by NWI Parties and to provide guidance on incentives for innovation in Integrated Water Cycle Management. Under CI 92(ii) of the NWI consultancy work is also being undertaken to develop a national set of guidelines for evaluating options for Water Sensitive Urban Design.

A study of “Recycled Water Quality Standards”, which will address key outcomes of the NWI and RNWS investment priorities, specifically in relation to accelerating and enhancing water recycling guidelines has also commenced.

The NWC is also:

- developing an “Information package to enhance public awareness about the use of recycled water for drinking purposes” to contribute to more informed public debate on the issue, and
- undertaking a review of the effectiveness of temporary water restrictions as required under (NWI paragraph 91(iii))

Raising National Water Standards

The Raising National Water Standards Programme was established by the Australian Government to provide the information and tools to support the better management of Australia’s water resources. A total of \$200 million over five years was allocated to the Raising National Water Standards Programme, to be funded from the \$2 billion Australian Government Water Fund.

As outlined above the programmed funds projects through two pathways: a competitive grants or Call Pathway and a Commissioned Pathway. The Commissioned pathway in particular is designed to provide resources to assist the NWC and jurisdictions deliver NWI implementation commitments.

To assist in identification of priority investments 9 investment themes have been identified under the programme within the three broader strategic Investment areas as follows.

- Implementing the National Water Initiative
 - Water Accounting
 - Emerging Water Markets
 - Water Planning and Management
- Improving Integrated Water Management across Australia
 - Irrigation and other Rural water
 - Water-Dependent ecosystems

- Integrated urban water management
- Improving Knowledge and Understanding of Australia’s water resources
 - Groundwater
 - Northern rivers
 - National Assessment of water resources.

A key aspect of the programme is to work with major stakeholders, particularly jurisdictions to ensure investments are addressing key priority areas and are target toward activities advancing water reform implementation across the nation.

Water Resources Planning and Management

The NCP assessment found that the key underpinning requirement for Water Reform is an area where progress generally has not been as strong as anticipated. Penalties previously imposed against NSW were only partially recovered as progress toward addressing identified concerns was not as strong as hoped. Western Australia was also penalised for slow progress and absence of an overarching planning framework. Other jurisdictions were also identified as having made slower progress than anticipated but not to the same extent as NSW and WA. Overall progress in this area remains an area of concern to the NWC.

Adaptive management and planning is an essential component of progressing and improving planning and environmental management. Knowledge on ecosystem function and management requirements are very variable around the country, this remains an area where ongoing research and adaptive management will be required.

Progress is also being made toward the incorporation of the risk assignment framework under the NWI into jurisdictions planning frameworks. All jurisdictions have clearly outlined within their NWI Implementation Plan the steps to be undertaken to fully adopt the risk assignment framework.

Water Access Entitlements

Entitlement conversion is the responsibility of the jurisdictions and through the Implementation Plans and NCP assessments the NWC maintains a close watch on the progress of entitlement separation and other commitments. Additionally the Commission, through the Raising National Water Standards Programme has sought and received funding approval to undertake a number of projects that explore in both the urban and broader context the issues surrounding the nature of entitlements associated with new water products including, Recycled water, stormwater, and irrigation return flows. This will provide a basis on which work with the jurisdictions to ensure ongoing compatibility of water products nationally.

A central element of securing water entitlements is the registration of those entitlements on publicly-accessible and reliable water registers of all water access entitlements and trades. The NWC for the NRM Ministerial Council NWI Committee, developed a suite of shared characteristics for compatibility of registers to be implemented by states. The NWC is currently convening an Industry Contact Group to explore options for ensuring that registers of individuals entitlements within

a bulk irrigation entitlement held by an irrigation entity are compatible with state based registers.

Water Trading

The opening of water markets - in particular permanent interstate trade in the southern MDB states - is viewed by the Commission as one of the most vital elements of the NWI and will continue to be one of the top priorities for the Commission into 2007. The southern Murray-Darling Basin (MDB) states agreed to a number of individual and collective actions to open up trade to a 4% annual interim threshold on the level of permanent trade out of irrigation areas.

All of the southern MDB States have undertaken steps that they consider to be required individual actions under the NWI to enable trade. However, these states have failed to undertake the necessary collective actions to open up trade between their respective jurisdictions and to ensure competitive neutrality. Under the 2005 National Competition Policy assessment, the Commission recommended that New South Wales, Victoria and South Australia each receive a suspended penalty of 5% of their 2005 competition payments, recoverable if adequate progress was made by 1 January 2007. This was agreed by the Australian Government.

These governments, with encouragement of the Australian Government and the NWC through the application of the NCP penalty, are working towards an interim arrangement that could provide a limited opening of trade by January 2007. The NWC will be assessing in early 2007 if progress to open up trade has been sufficient to return the suspended payments to these three states.

Continuing effort is being made through the Department of the Prime Minister and Cabinet led COAG Water Trading Group to resolve outstanding issues of concern. NWC officials are working in an advisory role with Australian Government officials and playing an observer role in the COAG Water Trading Group.

Water Accounting

All parties to the NWI agreed that the outcome of water accounting is to *“ensure that adequate measurement, monitoring and reporting systems are in place in all jurisdictions, to support public and investor confidence in the amount of water being traded, extracted for consumptive use, and recovered and managed for environmental and other public benefit outcomes*

A final report on the *Stocktake and Analysis of Australia’s Water Accounting Practices* commissioned by the Dept. of Agriculture Fisheries and Forestry for the NRM Ministerial Council’s NWI Committee was considered by the NWI Committee on 11 October 2006. The report findings demonstrated that water accounting in Australia is generally at an immature phase and being developed in an ad-hoc fashion.

NRM Ministerial Council at its November meeting will consider a recommendation that a Water Accounting Development Committee be established to further develop water accounting, including the determination of initial standards or guidelines. It is intended that the Water Accounting Development Committee’s will:

- Recognise and support opportunities for capacity building to facilitate the development of water accounting as a discipline;
- Further develop and adopt a National Water Accounting Process;
- Finalise a Conceptual Framework and Common Chart of Water Accounts;
- Finalise the detailed requirements of water information users, including 'external' users such as the Banking Association and environmental managers;
- Set in place the initial procedure to develop standards and guidelines;
- Undertake the development of the priority water accounting standards and guidelines, including:
 - Water market accounting;
 - Water resource accounting;
 - Water for the environment accounting; and
 - Accounting for water used to produce economic value.

Water Pricing

The National Water Commission is taking a leading role in guiding States and Territories in developing principles for water storage and delivery pricing, and pricing and attributing costs of water planning and management. A Steering Group on Water Charges has been established (membership of the Steering Group includes Australian, state and territory government officials and representatives of pricing regulators).

Work has commenced on a stocktake of approaches to pricing across jurisdictions in the urban and rural water sectors, and a stocktake on approaches to pricing and attributing costs of water planning and management. The stocktake is designed to achieve a shared understanding of how prices are determined in different jurisdictions. The stocktake will be completed for public release before the end of 2006.

The stocktake will provide the basis for the next phase of work, which is to determine the materiality of differences in approaches to components of water charging across states and territories, and to identify areas where consistency in approaches will contribute to better charging outcomes.

The Australian Government Water Fund

- The first call closed 30 Jun 2005 and successful projects have been announced. A total of 39 proposals have to date been announced including projects from the Round 1 call and those committed by the government during the last election.
- The total WSA funding provided to these projects is over \$489 million (\$538 million GST inclusive), with total project value of over \$1.3 billion
- Proposals received under the Second Call, for which applications closed on 16 June 2006, are currently under consideration.
- Projects are generally even spread across regions though Western Australia and Tasmania, which were late signatories to the National Water Initiative, each currently have only one project approved
 - New South Wales; 9 projects with WSA funding of \$84.43 million

- Victoria; 6 projects with WSA funding of \$206.37 million
- Queensland; 7 projects with WSA funding of \$109.12 million
- Western Australia; 1 project with WSA funding of \$0.78 million
- South Australia; 9 projects with WSA funding of \$79.76 million
- Tasmania; 1 project with WSA funding of \$2.27 million
- Northern Territory; 3 projects with WSA funding of \$2.03 million
- National; 3 projects with WSA funding of \$4.53 million.
- Major WSA project expenditure by NWI priority includes;
 - Return overused and over-allocated systems to sustainability (\$310.6 M)
 - Secure reliable water supplies (\$41 M)
 - Improve environmental outcomes (\$24.9 M)
 - Increase efficiency of water use in agriculture (\$22 M)
- On 25 July 2006 the Prime Minister wrote to First Ministers seeking 1 or 2 high priority projects of state or national significance, large transformative projects that could be considered for funding under the AGWF. All jurisdictions have responded and the Parliamentary Secretary is currently assist in the evaluation of these projects.

Challenges for the NWC and NWI implementation

The challenges to the Implementation of the NWI remain largely as identified in or previous submission:

- Maintaining momentum
- Achieving nationally consistent outcomes.
- Bringing Community along (ownership) of outcomes
- Addressing the longer term strategic issues in climate of severe drought and necessity for short term actions.

The NWC Progress on the National Water Initiative: A Report to the Council of Australian Governments ([Attachment A](#)) also outlines the six key priorities for NWI implementation.



Australian Government

National Water Commission

**PROGRESS ON THE NATIONAL WATER INITIATIVE:
A REPORT TO THE COUNCIL OF AUSTRALIAN
GOVERNMENTS**

1 June 2006

PROGRESS ON THE NATIONAL WATER INITIATIVE

Headline Messages

- There is now significant momentum behind the National Water Initiative. There has been substantial effort by states and territories as they continue to reform their water management arrangements, and through joint work on collective national actions under the Natural Resource Management Ministerial Council.
- National Water Initiative Implementation Plans for almost all jurisdictions are ready to be formally accredited by the Commission subject to resolution of a small number of issues. These plans underscore the current and future effort of jurisdictions to implement the National Water Initiative.
- Real reform progress is being made in a way that would not be occurring in the absence of the National Water Initiative. This includes progress in areas such as water trading, national water accounting standards, and nationally compatible registers for water access entitlements, and the further alignment of state/territory water management with NWI principles.
- At the same time, many of the conditions facing Australia's water resources which existed when the National Water Initiative was first signed in June 2004 still exist:
 - there has been sustained below average rainfall for many parts of Australia which is affecting the availability and reliability of water for consumption and the environment
 - there is a considerable distance still to go to achieve sustainability of water management in practice
 - water markets are still in their infancy, and
 - significant knowledge gaps persist about the availability and nature of the water resource in many surface and ground water systems.
- If anything, the risks to Australia's water resources are increasing – especially in the form of growing demand and reducing reliability of supply.
- As a result, the Commission considers that there is a need for governments to increase their commitment to the National Water Initiative reforms in order to deliver the improvements in water management sought by the Agreement.
- The resources and effort of governments should be targeted to deliver the fundamental reform elements of the National Water Initiative as a priority:
 1. complete the process of converting existing water rights into secure and tradable water access entitlements
 2. complete National Water Initiative-consistent water plans through transparent processes and using best available science

3. implement these plans to achieve sustainable levels of water extraction in practice
 4. establish open and low cost water trading arrangements
 5. improve water pricing to support the wider water reform agenda, and
 6. implement national water accounting and measurement standards, and adequate systems for measuring, metering, monitoring and reporting on water resources.
- Decisions will be required in the near future on a number of national reform actions under the National Water Initiative. These will require increased commitment from governments if national outcomes are to be achieved.
 - As one practical step, COAG could initiate development of a data sharing agreement between jurisdictions to ensure that water resource information is freely available for use to meet National Water Initiative requirements.
 - A lack of budgetary resources and/or expertise as a constraint to delivering the National Water Initiative is evident in all jurisdictions. Governments will need to further target their resources in order to deliver the fundamental National Water Initiative reforms. The Australian Government's Raising National Water Standards programme will also make a contribution to improving the capacity to enhance water management.
 - Effective consultation with stakeholders will be critical to improving water management on the ground. Governments will need to seek better ways of engaging stakeholders on water planning and on other areas of implementing the National Water Initiative. Stakeholders will need to make the most of opportunities to engage in good faith in order to deliver reforms in a timely manner.
 - Actions under the urban water element of the National Water Initiative should be pursued to meet the current challenges facing Australia's cities. Work should be directed at supporting – rather than distracting from – the important work already underway by most state and territory governments to secure the water supplies of highly populated regions. The Commission considers that work should be pursued in the following areas of urban water reform:
 - regional water supply planning which is transparent (consistent with the National Water Initiative commitments on water planning), and ensures that all feasible water supply options are on the table
 - trade between urban and rural uses should be one of these options, where feasible, especially where it can be undertaken in such a way as to meet both urban and rural water needs
 - there is a role for governments to accelerate the development of national guidelines for recycled water for potable use, stormwater reuse, managed aquifer recharge, and to enhance environmental flows

- governments should more clearly establish the conditions for further private sector provision of water services, including infrastructure access regimes and specifying entitlements to the development and re-use of new sources of water such as recycled water and stormwater
- the Commission considers that such work can be progressed under the National Water Initiative, and (subject to Australian Government agreement) with support from the Raising National Water Standards Programme.
- Overall, there is encouraging progress to date. At the same time, this report identifies a range of challenges to delivering the National Water Initiative. The case for water reform now is even stronger and more urgent than when the National Water Initiative was first signed, and the benefits which will flow from Australia's National Water Initiative reforms will far outweigh the difficulties. Ongoing leadership by COAG in support of the reforms will be critical.

1. About this report

The National Water Commission (the Commission) is providing this report on progress with the National Water Initiative (NWI) to COAG at the request of the Prime Minister. The report is intended to support an agenda item on water issues for the July COAG meeting.

COAG's discussion of water issues at its July meeting is timely. It reflects the continued national focus on Australia's water resources, and the special attention which water issues are receiving from the Prime Minister, Premiers and Chief Ministers. In the Commission's view, this attention from COAG is essential to increasing the commitment of governments to improve Australia's water management and use.

The Commission recently completed a comprehensive report on states' and territories' water reform progress in its 2005 National Competition Policy (NCP) assessment. This report to the July COAG meeting does not seek to reiterate that assessment. Instead, it provides an overview in the following sections of:

2. the current setting for water reform
3. NWI Implementation Plans of jurisdictions, and
4. challenges for delivering the NWI.

2. Current setting for water reform

It is now two years since the NWI was signed by the Prime Minister, Chief Ministers and Premiers (with the exception of Western Australia and Tasmania) at the 29 June 2004 COAG meeting.

Importantly, the NWI is now a truly national agreement with the signature of the Tasmanian Premier on 3 June 2005, and of the Western Australian Premier on 6 April 2006.

Since its signing, significant momentum has been created in implementing the NWI, including through the substantial effort by states and territories as they continue to reform their water management arrangements. Momentum has also been created on collective national actions in the NWI, being overseen by the Natural Resource Management Ministerial Council.

Specific examples of progress against the NWI include the following:

- legislative arrangements to provide for secure water access entitlements, for example in New South Wales, Victoria and Queensland,
- work to build reliable and responsive water access entitlement registers in jurisdictions, especially in Victoria where the full unbundling of entitlements represents an advance on the NWI requirements
- improved quality and conduct of water planning, for example in Tasmania, the Australian Capital Territory and the Northern Territory

- recent breakthroughs in progress by New South Wales, Victoria and South Australia to open up water trading in the southern Murray Darling Basin
- renewed investment in understanding water resources – for example in Western Australia’s recent investments in groundwater testing and modelling, and through the Australian Government’s investment in the Commission-led Australian Water Resources Information System – with significant cooperation from states and territories, and
- progress on a number of collective national actions under the NWI:
 - a stocktake of water accounting practices in each state and territory is nearly complete, and complementary work to set metering standards is progressing well
 - there is agreement to adopt the characteristics of nationally compatible water registers as an important basis for improving water trading, and
 - work has commenced on consistent approaches to water pricing, and is well advanced on national performance reporting for water service providers.

In the Commission’s view, real progress is being made in a way, and in areas of reform, that would not be occurring in the absence of the NWI. This is especially true in the national areas such as water trading, national water accounting standards, and nationally compatible registers for water access entitlements.

Nevertheless, an equally strong message is that governments will need to increase their commitment to the NWI in order to deliver on those areas which are fundamental to improving Australia’s water management and use (see Section 4.1).

It is worth noting that many of the conditions facing Australia’s water resources which existed when the NWI was signed still exist:

- Many parts of Australia are still experiencing sustained below average rainfall periods, even drought conditions. This is placing significant pressure on environmental assets, and on the reliability of water supplies for farms, other industries, and cities and towns.
- Overallocation and overuse in rural water systems are being addressed in water plans and other processes, but there is still a considerable distance to go to provide the environment with the water required to achieve sustainability for the resource.
- Markets in permanent water entitlements (especially interstate), in derived water products, and between urban and rural areas are still in their infancy. Water entitlement holders are yet to enjoy the full and considerable benefits of secure, tradable entitlements.

- The knowledge base about many water systems, and about the impact of extraction on environmental outcomes, needs to be further enhanced to underpin better water planning, and delivery of water for the environment.

In short, the Commission considers that the risks to Australia's water resources are increasing, especially in the form of reduced reliability due to long term changes in climate, and growing demand from agricultural, mining, industrial and residential consumption¹. Therefore, the need to put in place the arrangements for better understanding and managing our resources to meet these challenges is becoming more urgent, not less.

The Commission notes a perception in some quarters that water reform efforts are yet to deliver improvements on the ground. This perception is coloured by media reporting of a lack of progress until recently with the Living Murray Initiative and on interstate water trading. In addition, there are specific issues in each jurisdiction where there is discontent with reform. Typically these issues are around the roll-out of water plans, provision of water for environmental needs, creating new opportunities to trade, changes in water pricing, and augmenting supply to meet the growing needs of cities and towns.

For the reasons noted above, the Commission considers that perceptions of inadequate progress on the NWI are not, on the whole, justified.

At the same time, there remains a very strong commitment from major stakeholders to the NWI as the blueprint for national water reform, and for governments getting on with implementing its actions. This was clearly demonstrated at the Commission's stakeholder forum in March 2006. The forum gathered representatives of 53 water stakeholder organisations and of governments to discuss progress in implementing the NWI.

3. NWI Implementation Plans

As required by the NWI, governments have developed or are developing NWI Implementation Plans. These plans set out the steps required in each jurisdiction and across jurisdictions to deliver the actions contained in the NWI. The NWI also requires the Commission to 'accredit' these plans – to this end, the Commission has been working with officials to ensure that the plans cover all aspects of the NWI, and that they build confidence for stakeholders that actions will be achieved on time and in a manner consistent with the broader objectives and outcomes of the NWI.

By accrediting plans, the Commission is not saying that the plans – or the process of their development – are perfect. In fact, the plans have highlighted a number of areas where jurisdictions will need to further develop their water management arrangements to meet the requirements of the NWI. For example:

- the Commission has worked with jurisdictions to better coordinate effort on the urban water element of the NWI as a direct response to the relatively disjointed treatment of these actions in draft Implementation Plans,

¹ Work recently released by the Murray Darling Basin Ministerial Council on risks to shared water resources in the Basin is among the evidence underpinning this conclusion.

- almost all jurisdictions will need to undertake further substantive work to bring water interception activities into the entitlement framework where water resources are stressed; this will likely require national action to improve our understanding of the impact of different water interception activities in different catchments, and
- there has been criticism from some stakeholders about the lack of consultation by some jurisdictions on their plans.

In accrediting a plan, the Commission is saying that the plan provides a good basis for implementing the NWI, for informing stakeholders about how and when implementation will occur, and for assessing the progress of implementation, including through the Commission's biennial assessments (the first of which is due by end 2006-07).

3.1 Accreditation of NWI Implementation Plans

The plans of New South Wales, Victoria, Queensland, South Australia, the Australian Capital Territory, the Northern Territory and the Australian Government are ready to be accredited by the Commission, subject to resolution of a small number of outstanding issues. The Commission will update COAG on accreditation of these plans prior to the July COAG meeting.

After signing the NWI in June 2005, Tasmania's plan is expected to be accredited in the near future. As a recent signatory to the NWI, Western Australia is currently developing its plan.

The Commission's assessment of the plans – along with the 2005 NCP assessment – have provided the Commission with a unique perspective on some of the current challenges for implementation of the NWI. These are discussed in Section 4.

4. Current challenges for delivering the NWI

4.1 Delivering the fundamentals

As was the case when the NWI was signed, jurisdictions are at quite different points in delivering improvements to their water management arrangements. Nevertheless, the Commission considers that the NWI contains a number of fundamental reforms which are the building blocks for better water management. In the Commission's view it is critical that governments increase their commitment to delivering these fundamentals in order to achieve the objectives of the NWI.

The Commission considers that the resources and effort of governments need to be targeted to deliver, as a priority, the following fundamental reform elements of the NWI:

1. Completing the task of converting existing water rights into water access entitlements which establish the security, commercial certainty and tradability of the entitlements.
2. Completion of NWI-consistent water plans through transparent processes and using best available science, in particular for water systems which are heavily used, are at risk of over-use, or are of high conservation value. The main areas for improvement in water planning include better understanding the ecological needs of water systems, accommodating groundwater-surface water interaction, and finding better ways to engage with stakeholders to build confidence in the credibility of water plans.
3. Implementing NWI-consistent water plans on the ground, including, where necessary, achieving sustainable levels of extraction and providing water for the environment.
4. Implementing water trading arrangements which are low cost, and which extend real opportunities for trading in permanent entitlements, interstate, between rural and urban sectors, and for environmental purposes.
5. Establishing improved water pricing practices both to recover the costs of water utilities, and to recover the costs of managing the water resource itself. Increasingly, water pricing needs to support the wider water reform agenda by promoting the sustainable use of the water resource, encouraging cost effective investment decisions by users and water service providers, and providing the resources to improve government water planning and management².
6. Implementing national water accounting and measurement standards, and adequate systems for measuring, metering, monitoring and reporting on water resources.

No-one should be left in any doubt that state and territory governments are already making significant effort to secure these outcomes on the ground.

However, the Commission is highlighting these fundamental areas of reform to underscore its view that governments need to increase their commitment to deliver these outcomes if the significant benefits of the NWI are to be achieved in practice.

In particular, the Commission notes that decision points will be reached in the second half of 2006 in a number of areas which will test governments' commitment to the NWI reforms. These areas include: adoption by state and territory governments of nationally consistent water accounting systems and standards; steps to improve the compatibility of water entitlement registers between jurisdictions; consistent approaches to water pricing; and, of course, further progress in expanding interstate water markets. Each of these areas will carry a 'cost' in terms of changing current state and territory water management arrangements, and/or further investment to achieve NWI outcomes.

In addition, the Commission considers that the excellent cooperation from jurisdictions so far in building the Australian Water Resources Information System

² This echoes the outcomes for water pricing contained in paragraph 64 of the NWI.

could be enhanced by improved data sharing. Currently, meeting NWI data needs is constrained by state-specific licensing arrangements which require separate negotiation. To this end, COAG could initiate development of a data sharing agreement to ensure that water resource information is freely available for use between states/territories and at the national level.

The fundamental reform areas cited above – entitlements, planning, trading (with strong links between these three), pricing and accounting – form the core of the NWI. The Commission considers that they need to be a priority in terms of governments’ focus and resources. They will be the major focus of the NWC in future assessments of progress on the NWI.

4.2 Ensuring adequate resources to implement the NWI

Any government reform agenda requires both resources and political leadership to deliver results.

As noted above, the value and need for ongoing involvement and leadership by COAG on implementation of the NWI cannot be overstated.

A lack of budgetary resources and/or expertise is evident in almost all states and territories as a constraint on the delivery of the NWI. This has implications not only for reform effort within jurisdictions, but also for those NWI actions which require cross-border and national effort.

State and territory officials are acutely aware of the issues of institutional capacity, individual capacity and community capacity to achieve the NWI outcomes.

While this is undoubtedly part of the wider skills problem facing other sectors, as noted in section 4.1, the Commission considers that seeking to secure the fundamentals of the NWI creates a clear set of priorities for the efforts and resources of governments. While this still represents a major reform agenda, the Commission considers that governments will need to further target their resources to ensure these outcomes are delivered.

The Commission considers that investments through the Australian Government’s Raising National Water Standards programme will also make a substantive contribution to improving the capacity for improved water management.

4.3 Bringing stakeholders along with the reform agenda

Effective consultation is time-consuming and resource hungry, as evidenced in New South Wales, Queensland, South Australian and Tasmanian experiences with water planning. Experience with the Victorian *Our Water Our Future* White Paper, the Western Australian *Irrigation Review* and the Australian Capital Territory’s *Think water act water* strategy is further evidence. Engagement with indigenous interests presents additional challenges, as shown in the Northern Territory experience with planning for the Ti-Tree water resource.

Effective stakeholder engagement will always remain critical to improving water management. This is because:

- NWI-consistent water planning lies at the centre of decision making by users, communities and governments about the value and allocation of water
- major water users are also managers of the resource in the fullest sense – their support for changes in water management will be critical to delivering change on the ground, and
- decisions about water are integrally linked with individual livelihoods, community development, environmental values and public amenity.

For these reasons, the support of stakeholders is critical to delivering the NWI.

The Commission recognises that it will not be possible for governments to accelerate the delivery of fundamental reforms under the NWI without the support of stakeholders. In practice, this will mean at least two things:

- an obligation on governments³ to seek better ways of engaging with stakeholders in water planning and on other areas of implementing the NWI⁴, and
- a responsibility for stakeholders to make the most of opportunities to engage in consultation and decision making, in good faith in order to deliver reforms in a timely manner.

4.4 Urban water reform

The urban water reform element of the NWI (paragraphs 91 and 92) contains specific actions aimed at improving demand management, and encouraging integrated management of all water sources to create water sensitive cities.

As noted earlier, the Commission has initiated work with jurisdictions through the NWI Committee to better coordinate action under this element of the NWI.

In practice, the reduced reliability of water supplies in our major mainland capitals and other cities - sometimes coupled with major population growth - has forced governments to pursue a wider range of measures to secure water supplies. Importantly, this has included new sources of water.

The Commission considers that actions under the urban water element of the NWI should be pursued to better respond to the current challenges facing our cities. To

³ As envisaged in the NWI under paragraphs 93, 95 and 96.

⁴ There are examples of this in the current work on water accounting and metering (involving irrigators and irrigation authorities/companies), benchmarking water service providers (involving the Water Services Association of Australia, the Australian Water Association and the Australian National Committee on Infrastructure and Drainage), compatible water entitlement registers work (involving irrigation authorities/companies), urban water reform (establishment of the Urban Water Advisory Group) and development of the Australian Water Resource Information System.

this end, the Commission considers that areas where current work by governments is occurring, and where further work could be initiated, include the following.

4.4.1 Regional water supply planning

Regional water planning is a current focus around all many mainland capital cities, with central Victoria (*Sustainable Water Strategy Central Region*, April 2006) and south-east Queensland (*South East Queensland Regional Water Supply Strategy*) being two plans currently in development. Other strategies include the *2006 Metropolitan Water Plan* for Sydney, the Western Australian Water Corporation's *Source Development Plan*, the *Water Proofing Adelaide* strategy, and recent water supply augmentation under the *Think water, act water* strategy for the Canberra region. In essence, such planning seeks to identify the most effective combination of demand and supply options to enhance water security for regions into the future. In many cases this planning has canvassed very innovative policy and infrastructure solutions to secure regional water futures.

As a starting point, the Commission considers that two fundamental principles of such water supply planning should be:

- to enhance the transparency of water supply planning - in line with the NWI (Schedule E), but extended to cover water supply options, and
- to ensure that all feasible water supply options are on the table; where certain options are ruled out even before evaluation, there cannot be a transparent debate about the alternatives, and communities may be saddled with less cost effective options.

The following issues relate to some of these supply options which the Commission considers should be part of regional water planning.

4.4.2 Rural-urban water trade

When signing the NWI, governments committed to an objective of facilitating water trade between and within urban and rural sectors. Trade between these sectors is an important source of water to meet growing demand, potentially at a lower cost than other options. At the same time, this has been a highly emotive issue for regions not wanting to 'lose' water to other regions and uses.

The Commission considers that such trading opportunities need not be viewed as a zero-sum game for one region over another⁵. For example, there will be opportunities for cities to purchase water savings from willing sellers in rural areas by investing in improved irrigation supply. The Harvey Water scheme in south-west Western Australia is a current example of this.

Likewise, potable water for agricultural and industrial uses can be replaced with recycled water from cities. This is already occurring in most major cities and examples include the Bolivar (South Australia) and Werribee (Victoria) wastewater

⁵ In economic game theory, a zero-sum game is one where any gain by one player translates into an equivalent loss by the other player. The players are therefore in conflict and there is no scope for joint action to increase the total sum of the gains.

treatment schemes, and the proposals to transfer wastewater on the western corridor in south-east Queensland, and the *Western Sydney Recycled Water Initiative*.

As part of comprehensive regional water planning, urban-rural water trade would also need to be complemented by effective demand management (including water pricing) in the cities. In this way, trade could not be viewed as a 'lazy' option to secure cities' water supplies.

The Commission considers that rural-urban water trade needs to be squarely on the table to test the cost effectiveness of other options and avoid potentially poor infrastructure investment decisions.

4.4.3 Indirect potable re-use of water

The Commission supports indirect potable re-use of water in Australia. It has recommended funding for projects under the Australian Government Water Fund to support developing this source of water for Toowoomba (Queensland), Goulburn (New South Wales), and Uluru (Northern Territory). At the same time, the Commission fully recognises that the success of this source of water to augment potable supply relies not only on the technical proving of its safety, but critically on community confidence that such water is safe.

The issue of community confidence is now the major sticking point. Communities will need to come to their own views. However, there is a role for governments to develop national guidelines for recycled water for potable use. The development of national guidelines for stormwater reuse, managed aquifer recharge, and for the use of recycled water to enhance environmental flows should also be accelerated.

Such guidelines would build on the first phase of national guidelines for recycled water that are currently in their final stages of completion. While it has been agreed that the next phase of the guidelines will cover recycled water for potable uses, the Commission considers that this work can and should be accelerated.

4.4.4 Private sector involvement in water provision

A number of states and territories have already recognised that, to meet water supply constraints, further private sector involvement in water delivery can be an important part of the policy mix.

For example, the New South Wales government has recently issued a consultation paper *Creating a dynamic and competitive metropolitan water industry* (May 2006) which proposes a licensing framework for private water providers and a regime for access to water infrastructure. In addition, the Western Australian government has acknowledged (*State Water Plan – Draft Water Policy Framework*, April 2006) the scope for additional private sector service providers as a means to meet the growing demand for urban water infrastructure in that state.

This existing reform work could be built upon to establish the conditions for further private sector provision of water services.

Successful opportunities for private sector involvement will also depend on clear specification of entitlements to the development and re-use of new sources of water,

including from stormwater harvesting, treated wastewater, aquifer recharge and recovery, de-watering mines, and desalination. While the NWI provides a strong basis for specifying entitlements for existing sources of water, further work should be done to address the specific requirements of some of these new sources of water.

The preceding discussion shows that state and territory governments are already very active in urban water reform, and in securing water supplies for their major cities and towns. While the Commission considers that further work at a national level should be undertaken in this area, it is imperative that this work support - and not distract from - the important work already underway.

In the Commission's view, further work in these areas could be progressed under the rubric of the NWI (in particular through current work underway in relation to integrated water cycle planning and management (NWI paragraph 92(iv)), and with further support from the Raising National Water Standards programme under the Australian Government Water Fund (subject to decision by the Australian Government).